

104

Y 4. SE 2/1 A: 995-96/30

[H.N.S.C. No. 104-30]

HEARING

ON

NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 1997—H.R. 3230

AND

OVERSIGHT OF PREVIOUSLY AUTHORIZED
PROGRAMS

BEFORE THE

COMMITTEE ON NATIONAL SECURITY
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS
SECOND SESSION

SPECIAL OVERSIGHT PANEL ON MORALE, WELFARE
AND RECREATION HEARING

ON

**TITLE III—OPERATION AND
MAINTENANCE**

HEARING HELD
MARCH 27, 1996



JUN 23 1997

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1997

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SPECIAL OVERSIGHT PANEL ON MORALE, WELFARE, AND RECREATION

JOHN M. MCHUGH, New York, *Chairman*

SAXBY CHAMBLISS, Georgia

BOB STUMP, Arizona

HERBERT H. BATEMAN, Virginia

J.C. WATTS, JR., Oklahoma

JOE SCARBOROUGH, Florida

WALTER B. JONES, JR., North Carolina

GLEN BROWDER, Alabama

NORMAN SISISKY, Virginia

SOLOMON P. ORTIZ, Texas

OWEN PICKETT, Virginia

JOHN TANNER, Tennessee

ROBERT A. UNDERWOOD, Guam

JEFFREY M. SCHWARTZ, *Professional Staff Member*

STEPHEN O. ROSSETTI, JR., *Professional Staff Member*

PEGGY COSSEBOOM, *Staff Assistant*

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H. R. 3230

To authorize appropriations for fiscal year 1997 for military activities of the Department of Defense, to prescribe military personnel strengths for fiscal year 1997, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 15, 1996

MR. SPENCE (for himself and Mr. DELLUMS) (both by request) introduced the following bill; which was referred to the Committee on National Security

A BILL

To authorize appropriations for fiscal year 1997 for military activities of the Department of Defense, to prescribe military personnel strengths for fiscal year 1997, and for other purposes.

* * * * *

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "National Defense Authorization Act for Fiscal Year 1997".

TITLE III—OPERATION AND MAINTENANCE

Subtitle A—Authorization of Appropriations

SEC. 301. OPERATION AND MAINTENANCE FUNDING.

Funds are hereby authorized to be appropriated for fiscal year 1997 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense, for expenses, not otherwise provided for, for operation and maintenance, in amounts as follows:

- (1) For the Army, \$18,114,479,000.
- (2) For the Navy, \$20,196,197,000.
- (3) For the Marine Corps, \$2,203,777,000.
- (4) For the Air Force, \$17,913,455,000.
- (5) For the Defense Agencies, \$10,156,468,000.
- (6) For the Army Reserve, \$1,084,436,000.
- (7) For the Naval Reserve, \$843,927,000.
- (8) For the Marine Corps Reserve, \$99,667,000.
- (9) For the Air Force Reserve, \$1,488,553,000.
- (10) For the Army National Guard, \$2,208,477,000.
- (11) For the Air National Guard, \$2,654,473,000.
- (12) For the Defense Inspector General, \$136,501,000.
- (13) For Drug Interdiction and Counter-drug Activities, Defense, \$642,724,000.

- (14) For the United States Court of Appeals for the Armed Forces, \$6,797,000.
- (15) For Environmental Restoration, Army, \$356,916,000.
- (16) For Environmental Restoration, Navy, \$302,900,000.
- (17) For Environmental Restoration, Air Force, \$414,700,000.
- (18) For Environmental Restoration, Defense-wide, \$258,500,000.
- (19) For Medical Programs, Defense, \$9,358,288,000.
- (20) For Overseas Humanitarian, Disaster, and Civic Aid, \$80,544,000.
- (21) For Former Soviet Union Threat Reduction, \$327,900,000.
- (22) For Payments to Kaho'olawe Island, \$10,000,000.

SEC. 302. WORKING CAPITAL FUNDS.

Funds are hereby authorized to be appropriated for fiscal year 1997 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for providing capital for working capital and revolving funds in amounts as follows:

- (1) For the Defense Business Operations Fund, \$947,900,000.
- (2) For the National Defense Sealift Fund, \$963,002,000.

Subtitle B—Other Matters

SEC. 310. REMEDIES FOR CONTRACTOR EMPLOYEE WHISTLEBLOWERS.

Section 2409(c) of title 10, United States Code, is amended—

(1) in subparagraph (B) by striking the period at the end, inserting in lieu thereof “; or in lieu of reinstatement, order the contractor to pay the person an amount equal to the compensation (including back pay) that would apply to the person in that position if the reprisal had not been taken and an award for damages.”; and

(2) by adding at the end of paragraph (c)(1) the following new subparagraph (D):

“(D) Order the contractor to reimburse the agency that conducted the reprisal investigation an amount equal to the cost of the investigation.”.

SEC. 311. REPEAL OF REQUIREMENT FOR PHYSICAL EXAMINATION ON CALLING MILITIA INTO FEDERAL SERVICE.

(a) **REPEAL OF REQUIREMENT.**—Section 12408 of title 10, United States Code, is repealed.

(b) **CLERICAL AGREEMENT.**—The table of sections at the beginning of chapter 1209 is amended by striking out the item relating to section 12408.

SEC. 312. DEFENSE BUSINESS OPERATIONS FUND AMENDMENT.

Section 2216(i)(1) of title 10, United States Code, is amended by striking “\$50,000” and inserting in lieu thereof “\$100,000”.

* * * * *

MORALE, WELFARE AND RECREATION ISSUES

HOUSE OF REPRESENTATIVES,
COMMITTEE ON NATIONAL SECURITY,
SPECIAL OVERSIGHT PANEL ON
MORALE, WELFARE AND RECREATION,
Washington, DC, Wednesday, March 27, 1996.

The panel met, pursuant to notice, at 10:04 a.m., in room 2216, Rayburn House Office Building, the Hon. John M. McHugh (chairman of the panel) presiding.

OPENING STATEMENT OF HON. JOHN M. McHUGH, A REPRESENTATIVE FROM NEW YORK, CHAIRMAN, SPECIAL OVERSIGHT PANEL ON MORALE, WELFARE AND RECREATION

Mr. McHUGH. Good morning. Let me first of all apologize for the closeness of the room. We are sorry about the crowded situation. We were not able to access our normal hearing room. And as perhaps some, if not all, of you are aware that we will have a regular hearing at 1 o'clock. But I do want to welcome those of you who have been able to fit in, and thank you for joining us here this morning.

Last year, at the first hearing of this panel, I stated that we had two priorities: First, to protect the benefits for our soldiers, airmen, and marines, and their families; and second, in order to meet that first priority, we must recognize that the status quo will no longer suffice. We are here to continue to pursue that.

I have a full statement that I am going to enter for the record, but for the sake of time, because we do have so many panels today, I am going to yield to the ranking member, Mr. Browder, for any comments he might want to make.

[The prepared statement of Mr. McHugh follows:]

STATEMENT OF CHAIRMAN JOHN M. MCHUGH
SPECIAL OVERSIGHT PANEL ON MORALE, WELFARE AND RECREATION

WEDNESDAY, MARCH 27, 1996

Good morning. The Panel will please come to order.

Last year, at the first hearing of this Panel, I stated that we had two priorities. First, to protect the MWR benefit for our soldiers, sailors, airmen and marines, and their families. Second, that in order to meet the first priority we must all recognize that the status quo will no longer suffice in the delivery of the various MWR benefits; that these benefits must be delivered in the most cost effective and efficient manner.

As we sit here today, the Congressional Budget Office is conducting a comprehensive review of the military resale system and MWR activities at the request of the Government Reform and Oversight and Budget committees. This review is looking at the costs of these programs in relation to the benefits they provide and the potential for private sector solutions. I can assure you that the motivation behind this review is not to see how to spend more money in these areas.

Additionally, the Defense Science Board Task Force on Privatization is looking at the commissaries as part of its work. The General Accounting Office has undertaken a review of non-appropriated fund construction issues and priorities. And, earlier this month, the Vice President announced the selection of the Defense Commissary Agency to be what is fast becoming a household word in the MWR community -- a PBO, or Performance Based Organization.

What this all means is that the second priority I identified last year is more important than ever -- that we must focus on opportunities for generating efficiencies through cooperative and other efforts. If there are options for delivering the MWR benefit that requires less appropriated fund support, then they should be identified, investigated, validated and implemented.

What this also means, more importantly, is that we must remain vigilant in the protection of the benefit for our service people and their families. And when I say benefit, I don't mean a redefined benefit but the same level of benefit that is enjoyed today. As our servicemen and women are asked to do more with less, our responsibility to improve their quality of life increases.

The fiscal times we live in demand that we take a critical look at programs, and how they are delivered. However, green eye shade only solutions are not the answer. We

must not forget the mission of the various MWR programs, why they exist and their importance to soldiers, sailors, airmen, marines and their families.

In short, the bottom line of the balance sheet, while important, cannot take precedence over the bottom line of the MWR mission -- to provide for the quality of life of our service people and their families.

We have three panels of distinguished witnesses. However, before I introduce them, I would like to yield to my friend from Alabama, Glen Browder, the ranking member of this Panel, for any remarks he may wish to make.

Panel 1

The Honorable Fred Pang
Assistant Secretary for Force Management
Department of Defense

Maj. Gen. Richard Beale, Jr. USA
Director
Defense Commissary Agency

Panel 2

Maj. Gen. A. Doug Bunker, USAF
Commander
Army and Air Force Exchange Service (AAFES)

Capt. Bruce R. Bennett
Acting Commander
Navy Exchange Service Command (NEXCOM)

Brig. Gen. James R. Joy, USMC (Ret.)
Director, MWR Support Activity
U.S. Marine Corps

Panel 3

Brig. Gen. John G. Meyer
Commander
Army Community and Family Support Center
U.S. Army

Brig. Gen. Patrick O. Adams
Director of Services
U.S. Air Force

Brig. Gen. James R. Joy, USMC (Ret.)
Director, MWR Support Activity
U.S. Marine Corps

Rear Adm. Larry R. Marsh
Assistant Chief of Naval Personnel
Readiness and Community Support
Bureau of Naval Personnel
U.S. Navy

**STATEMENT OF HON. GLEN BROWDER, A REPRESENTATIVE
FROM ALABAMA, RANKING MINORITY MEMBER, SPECIAL
OVERSIGHT PANEL ON MORALE, WELFARE AND RECRE-
ATION**

Mr. BROWDER. Thank you, Mr. Chairman.

I will also enter a statement into the record, but I would like to make the comment that I think the Department now has a full plate of activities to work with, and I think it would be wise for us to take the time at this point to allow the Department to assess where they are in light of these changes before we legislate any new requirements.

I also want us to be sure to take a look at the designation of the commissary agency as a performance-based organization. That is going to, I think, take a lot of attention.

I will submit a formal statement for the record. Thank you.

[The prepared statement of Mr. Browder follows:]

OPENING STATEMENT
HON. GLEN BROWDER

Before the House National Security Committee
Special Oversight Panel on Morale, Welfare and Recreation
March 27, 1996

I join with Chairman McHugh in welcoming you to this hearing today. The last session was a very active one for this panel. The recently published public law contains many significant initiatives focused on improving the quality of MWR services to the forces. I believe, Mr. Chairman, that the Department now has a full plate of activities to work with. It would be wise to take the time at this point to allow the Department to assess where they are in light of those changes before we legislate new requirements.

This pause does not mean that we should cease our attempts to seek efficiencies while preserving the value of the benefits to MWR patrons. One initiative I have received some information about is the identification of the Commissary Agency as a Performance Based Organization. Early indicators are that it has significant potential for far reaching impact on the commissary program. I look forward to hearing your comments on it today along with the rest of your testimony and response to questions.

Mr. MCHUGH. I appreciate that, and thank the gentleman for his consideration.

I will now yield to the gentleman from Virginia, Mr. Bateman, for any comments he may wish to make.

Mr. BATEMAN. I have no statement, Mr. Chairman. I am in my listening mode.

Mr. MCHUGH. Mr. Sisisky.

Mr. SISISKY. I am going to follow the chairman. I will not be making a statement. I do have some questions for the witnesses, I promise.

Mr. MCHUGH. Well, that is what we are trying to facilitate.

Mr. Chambliss, any opening remarks?

Mr. CHAMBLISS. If it is good enough for Mr. Sisisky, what can I say?

Mr. MCHUGH. And Mr. Pickett.

Mr. PICKETT. I cannot add anything to what has already been said, Mr. Chairman.

Mr. MCHUGH. I appreciate that. I should note that, obviously, we do have a number of concerns. The benefit that we all feel so strongly about has come under a great deal of scrutiny. As I am sure all of us in this room are aware, there are any number of organizations examining that, looking at it; a couple of congressional committees—the Government Oversight and the Budget Committees. And I think it is fair to say that, in the final analysis, none of these initiatives are, in all likelihood, designed to spend more money on these kinds of things; rather, looking for savings.

While we certainly support any effort to economize and to deliver this benefit in the most cost-efficient manner possible, by the same token, we do not believe that green-eyeshade approaches are necessarily the answer. Indeed, in these times when we ask our men and women in uniform to do so much more, often with less resources, we want to ensure that this benefit remains, and does not just remain in some transformed sense, but indeed remains in the same context and at the same levels that it has in the past.

That is why we are so pleased today to have this opportunity to begin our oversight hearings and to, of course, discuss these issues with those folks who are most responsible for their implementation.

On our first panel this morning we are very honored to have with us Mr. Fred Pang, Assistant Secretary for Force Management in the Department of Defense. Mr. Secretary, welcome, and thank you for joining us. And we have with us today Maj. Gen. Richard Beale, Jr., U.S. Army, Director of the Defense Commissary Agency. Welcome, General Beale.

Gentlemen, again, on behalf of all of the panel members, thank you for being here and we look forward to your testimony. You can proceed in the manner that you feel is most appropriate. Secretary Pang, I will yield to you, sir.

STATEMENT OF FRED PANG, ASSISTANT SECRETARY FOR FORCE MANAGEMENT, DEPARTMENT OF DEFENSE

Mr. PANG. Well, Mr. Chairman, members of the panel, it is indeed an honor and a privilege for me to appear before you again to report on our resale and morale, recreation and welfare programs.

I have submitted a written statement covering the full range of the responsibilities I have for resale and MWR programs, and I request that that statement be made part of the record.

Mr. MCHUGH. Without objection, it is so ordered.

Mr. PANG. Mr. Chairman, as the panel has requested, I will focus my remarks this morning on two subjects: First, the candidacy of the Defense Commissary Agency to be converted to a performance-based organization, or PBO; and second, the study mandated by section 339 of the fiscal year 1996 Defense Authorization Act examining efficiencies in the operation of commissary stores, military exchanges, and other morale, welfare, and recreation activities.

Before I turn to these two subjects, I would like to make a few brief summary observations about our work together and why we must continue to provide strong stewardship to this important program.

Mr. Chairman, I know that you and this panel share our pride in the professionalism and dedication of today's Armed Forces, and we appreciate the panel's continuing support to ensure that this force remains professional and ready. This support is critical, as we ask so much of our military and their families.

The end of the cold war has required our forces to be smaller, more versatile, and mobile. Mission requirements have increased the pace of deployments, and our people have weathered the anxiety and uncertainty of a major downsizing. We recognize that we must reciprocate for their service by caring for their families, especially those who are concerned about the well-being of their loved ones who are deployed away from home. And we must take extra measures to ensure care for our forces in the field who face danger, tedium, fatigue, and austere conditions.

We must be continually mindful of the sacrifices being made by our people who today are flying sorties in Southwest Asia, steaming in the Taiwan Straits, toiling in the mountains of Bosnia, standing guard on the Korean DMZ, and performing many other missions in defense of freedom. And behind all of these people at the point of the spear are the thousands providing logistics and support every day.

The MWR and resale system is an integral part of this support network, and we thank you and the panel for the outstanding support you have provided us over the years.

We know that the panel's consistent and longstanding support comes with expectations: expectations of our military people, that we will provide quality programs that are affordable, and that the funds they contribute will be well-managed and safeguarded; expectations of the taxpayers, that we will continually strive to gain the most mileage for the dollars provided to these programs; expectations of the thousands of employees and managers of the program, that we will be thoughtful and compassionate as we make decisions affecting their livelihoods.

We recognize that we must endeavor to provide a stable and optimal program that embraces all of these expectations. We are working hard to accomplish this task, and we seek your continued guidance and support.

The MWR and resale system has several challenges, as you pointed out, Mr. Chairman. Force structure reductions and base

closures have reduced the economies of scale that have traditionally underpinned this program and which allowed us to support a larger overhead structure; off-base discounters have made their presence known outside military bases; budget pressures place the system under the microscope; at remote and overseas sites, the system must be all things to all people, and many times it is the only thing for our military people.

But with these challenges, Mr. Chairman, there are also opportunities. The system has enormous talent and financial potential that, if well managed, can be harnessed to ensure the program's viability well into the next century; changes in data processing, telecommunications, and transportation are revolutionizing business, and we should take advantage of these developments; force structure and basing has stabilized, allowing a more predictive business environment; and the philosophy of government is changing, opening the door for more innovation.

This brings me to the first issue I was asked to address which is the nomination of the commissary agency as a performance-based organization. The PBO concept has as its core principle that quality and affordability must take a front seat to preserving a bureaucracy weighed down with outdated and overlapping systems and programs. We must remove the restraints that often prevent us from operating efficiently, and allow managers to manage. We need to be more and more measured by the criteria of efficiency, cost, and service.

We have made major advances in the management of the commissary system since this panel directed consolidation a number of years ago. And these advances have poised the commissaries, I believe, on the threshold of moving even further in an effort to embrace the expectations of our patrons and the taxpayer. We believe that the PBO holds promise for the next generation of commissary evolution in order to meet these expectations.

As part of Vice President Gore's reinventing government program, agencies were asked to nominate candidates for a fresh and innovative approach to responding to customers and gaining efficiencies. The Defense Department nominated DECA. We did so because DECA's focus on customer service and its revenue-based, business-based operations are well suited to this concept.

We are focusing on three main areas: personnel, acquisition, and funding. With regard to personnel, most of DECA's appropriation is used to pay for people. We are examining ways to reduce this cost by removing many of the regulatory barriers to efficiency in personnel management. This will be done in consultation with the unions, and will be aimed at providing an environment that allows for career progression based upon merit.

With regard to acquisition, DECA is in the purchasing and resale business. Smarter buying will allow us to reduce the cost of administration, and allow us to explore new avenues to reduce prices for patrons.

With regard to funding, DECA works with four different kinds of money: customer receipts, stock funds, surcharge collections, and operation and maintenance funding. We are examining how to better manage these funds in order to reduce administrative costs and maximize the collective benefits of these funds through improved

cash management and application of all resources to meet our most important needs. This would be done in strict accountability over the sources and the uses of funds.

The PBO would function like a government corporation. Government corporations are those entities that are predominantly business in nature, produce revenues, involve a large number of business transactions with the public, and require greater flexibility.

Mr. Chairman, as with anything new, there are questions and concerns about this approach. I would like to address a couple of them with you.

With regard to patron prices and services, our objective is to reduce management and administrative costs, and enhance service. In pursuing this objective, we are committed to preserving the commissary benefit at its current level. We will not sacrifice the benefit in pursuit of this objective.

With regard to congressional involvement and oversight, PBO's differ sharply from government corporations, in that congressional accountability and oversight are maintained.

The fine relationship that we have forged with this Panel over the years would be kept. We would move forward prudently as we explore the concept and its potential. We will need the support of the Congress, and we will work with you to secure it. We will work closely with this Panel to ensure that your concerns are addressed and that there is a full understanding of the structure and procedures that will be installed.

Mr. Chairman, we are mindful that there are, as you point out, outside influences emerging that provide an imperative for change. The Congressional Budget Office is undertaking a major review of the program at the direction of two committees of Congress, including the Budget Committee. There are strong efforts in Congress and in the Pentagon to privatize functions, and commissaries are not necessarily immune.

The most important imperative, as we pursue our PBO initiative, is that we provide for a stable end state where patrons do not have to fear for their benefits and employees do not have to fear for their jobs. We plan to proceed aggressively, but prudently.

Mr. Chairman, allow me to turn briefly to the second issue I was asked to address, the review mandated by Congress of the potential for efficiency in our MWR and resale programs.

We have heard you loud and clear. We must get more efficient. We have begun this review in earnest, however, the new authorities you recently provided to us that will enable cooperation and reduction of duplication and overlap have altered the equation—for the better, I might add.

I speak of such things as overturning the "mattress decision" and authorizing the single morale, welfare, and recreation workforce prototypes. These enabling authorities are being cranked into the equation, and we will report our findings to you in the near future. Meanwhile, we have moved aggressively in a number of functional areas that best lend themselves to cooperation, including training, contracting, and data processing.

Mr. Chairman, before I conclude, I would like to recognize the proud and professional service of Gen. Dick Beale, who sits next to me. For 3½ years, he has worked hard through difficult times to

manage a commissary system in transition. General Beale will be retiring this summer, and I know that you join me in congratulating him on an outstanding career of dedication in service to our country, and in wishing him the very best in his future pursuits.

I would also like to introduce a new addition to my team. He is no stranger to this Panel, nor to DOD. He is Mr. Steve Rossetti. Steve joined us last week to assist me in this area. He will be reporting directly to me on Defense-wide MWR and resale policies and programs, and we look forward to major contributions from him.

Mr. Chairman, this concludes my remarks. Thank you very much for the opportunity to appear before you. I am prepared to respond to questions that the panel may have, after General Beale makes his opening remarks.

[The prepared statement of Mr. Pang follows:]



FREDERICK PANG
Assistant Secretary of Defense for Force Management Policy
 Washington, D.C. 20301-4000

Mr. Pang was sworn in as Assistant Secretary of Defense for Force Management Policy on October 11, 1994. As Assistant Secretary, he acts on matters pertaining to military and civilian manpower and personnel in the Department of Defense. He has Defense-wide policy responsibility for the recruitment, training, career development, compensation, retention, quality of life, equal opportunity, and readiness of Defense personnel. In addition, Mr. Pang is designated as the Principal Deputy Under Secretary of Defense for Personnel and Readiness.

Previously Mr. Pang served as the Assistant Secretary of the Navy for Manpower and Reserve Affairs where he acted on matters pertaining to manpower and personnel policy within the Department of the Navy.

Mr. Pang served as a professional staff member on the Senate Armed Services Committee. In this key role, he developed and made policy and legislative recommendations on Defense-wide personnel programs.



Before joining the staff of the Senate Armed Services Committee, Mr. Pang served as a regular officer in the United States Air Force. He entered active duty in 1959 after completing the Air Force Reserve Officer Training Corps (AFROTC) program at the University of Hawaii. He attained the grade of colonel before retiring with 27 years of service in 1986.

During his Air Force career, he served in a variety of manpower and personnel assignments including tours of duty in Vietnam, Headquarters United States Air Force, and the Office of the Secretary of Defense. In the Office of the Secretary of Defense, he served as the Director of Officer and Enlisted Personnel Management, and as the Director of Compensation before he retired from active duty.

Mr. Pang's military decorations include the Defense Superior Service Medal; the Bronze Star Medal; the Defense Meritorious Service Medal (awarded twice); the Air Force Meritorious Service Medal (awarded twice); the Air Force Commendation Medal (awarded twice) and the Department of the Navy, Distinguished Public Service Award for service as the Assistant Secretary of the Navy for Manpower and Reserve Affairs.

Prior to entering the United States Air Force, Mr. Pang served in the Naval Reserve for three years. He completed recruit training at Naval Training Center, San Diego, in 1953, and served aboard two destroyers. He attained the grade of Seaman First Class.

Fred Pang grew up in Honolulu, Hawaii. He graduated from McKinley High School in 1954, and graduated from the University of Hawaii in 1958 with a Bachelors Degree in Education. He earned a Masters Degree in Business Administration in 1972 from the University of Hawaii under the Air Force Institute of Technology civilian institutions scholarship program, and completed the National and International Security Program at Harvard University in 1988.

Mr. Pang is married to Brenda W.I. Tom, of Honolulu, and they reside with their daughter, Susan and son, Douglas an ensign in the United States Navy, in Arlington, Virginia. His mother, Mrs. Henry K. Pang, lives in Honolulu, Hawaii.

(as of January 16, 1996)

STATEMENT OF THE
HONORABLE FREDERICK PANG
ASSISTANT SECRETARY OF DEFENSE
(FORCE MANAGEMENT POLICY)
BEFORE THE
MORALE, WELFARE, AND
RECREATION PANEL
READINESS SUBCOMMITTEE
COMMITTEE ON NATIONAL SECURITY
U.S. HOUSE OF
REPRESENTATIVES

MARCH 27, 1996

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Not for publication until released by the Committee

**Prepared Statement of The Honorable Fred Pang
Assistant Secretary of Defense (Force Management Policy)
Before the Morale, Welfare and Recreation Panel
United States House of Representatives
March 27, 1996**

MR. CHAIRMAN AND MEMBERS OF THE PANEL, I WELCOME THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY, ALONG WITH THE COMMISSARY AND EXCHANGE COMMANDERS AND SERVICE MWR COMMANDERS, TO TESTIFY ON THE DEPARTMENT'S MORALE, WELFARE AND RECREATION PROGRAMS AND RESALE ACTIVITIES.

IT IS TRULY A PRIVILEGE TO BE A MEMBER OUR NATIONAL SECURITY TEAM AT THIS PERIOD IN OUR HISTORY. IT IS HARD TO THINK OF A TIME WHEN THERE WAS SO MUCH TO BE OPTIMISTIC ABOUT IN OUR BUSINESS.

- WE HAVE A HIGH QUALITY, EXPERIENCED, AND DIVERSE MILITARY FORCE.
- THE SENIOR CIVILIAN AND MILITARY LEADERSHIP HAVE DEVELOPED A EXCELLENT WORKING RELATIONSHIP AND ENJOY GREAT MUTUAL RESPECT.
- OUR COMMANDER IN CHIEF HAS USED DIPLOMACY AND THE JUDICIOUS USE OF MILITARY POWER TO HELP BRING PEACE TO MANY

PARTS OF THE WORLD AND TO RAISE AMERICA'S INFLUENCE AND RESPECT TO NEW HIGHS.

- THROUGH CAREFUL ATTENTION, WE HAVE MAINTAINED SUPERIOR READINESS IN THE FORCE.
- WE ARE NEARING THE CONCLUSION OF A REMARKABLY SUCCESSFUL DRAW DOWN OF OUR FORCES WHICH TWO ADMINISTRATIONS, THE MILITARY LEADERSHIP, AND THE CONGRESS WORKED SO HARD TO ACHIEVE. OUR RECRUITING HAS REMAINED STRONG THROUGH A DIFFICULT PERIOD, AND SIGNS FOR THE FUTURE ARE HOPEFUL.

AND, MR. CHAIRMAN, IT SEEMS EVERYONE HAS COME TO KNOW WHAT THIS PANEL HAS KNOWN FOR A LONG TIME: THAT PEOPLE ARE THE FOUNDATION OF MILITARY READINESS -- AND AS A RESULT WE HAVE EMBARKED ON AN AMBITIOUS PROGRAM TO SUPPORT THE QUALITY OF LIFE OF OUR SERVICE MEMBERS.

THE DEPARTMENT'S MORALE, WELFARE AND RECREATION PROGRAMS; EXCHANGES AND COMMISSARIES ARE CRITICALLY IMPORTANT TO OUR SERVICE MEMBERS AND TO MILITARY FAMILIES. LAST YEAR WHEN I CAME BEFORE THIS PANEL I SPOKE ABOUT THE SUCCESS OF THE POST-COLD WAR DRAWDOWN AND SECRETARY PERRY'S AMBITIOUS QUALITY OF LIFE INITIATIVE. TODAY, I WILL FOCUS ON THE INITIATIVES TAKING

PLACE TO IMPROVE THE EFFICIENCY OF OUR RESALE SYSTEM AND MWR PROGRAMS AND OUR CONTINUING EFFORT TO IMPROVE THE SERVICE WE PROVIDE TO OUR PATRONS. LET ME TURN FIRST TO OUR MWR PROGRAMS.

MORALE, WELFARE AND RECREATION PROGRAMS

THE DEPARTMENT OF DEFENSE PROVIDES MORALE, WELFARE AND RECREATION (MWR) PROGRAMS IN ORDER TO HELP BRING SOME OF THE BENEFITS OF CIVILIAN LIFE TO OUR MILITARY COMMUNITIES. THESE PROGRAMS ARE THE CORNERSTONE OF COMMUNITY QUALITY OF LIFE, PROVIDING FOR FITNESS, RECREATION CENTERS, LIBRARIES, SPORTS AND ATHLETIC PROGRAMS, YOUTH CENTERS, AND A VARIETY OF OTHER RECREATIONAL AND SOCIAL ACTIVITIES. REVENUE-GENERATING MWR ACTIVITIES SUCH AS BOWLING CENTERS AND GOLF COURSES NOT ONLY PROVIDE RECREATIONAL OPPORTUNITIES, BUT GENERATE PROFITS USED TO IMPROVE OTHER COMMUNITY MWR PROGRAMS.

THE DEPARTMENT CONSIDERS MWR CRITICAL TO MISSION READINESS AND PRODUCTIVITY. THE PROGRAMS AND ACTIVITIES OFFERED AT OUR INSTALLATIONS WORLDWIDE CONTRIBUTE TO PHYSICAL FITNESS AND ESPRIT DE CORPS, AND AID IN THE RECRUITMENT AND RETENTION OF PERSONNEL.

IN THE COURSE OF THE LAST TWO YEARS, THE DEPARTMENT HAS TAKEN ACTION TO IMPROVE AND UPDATE MWR PROGRAMS. WE HAVE ISSUED NEW POLICY GUIDANCE, INCORPORATING REQUIREMENTS FOR SHORT AND LONG RANGE PLANNING, SPECIFIC SERVICE GOALS AND STANDARDS, AND A PERIODIC MARKET ANALYSIS TO ENSURE THAT OUR PROGRAMS ARE CUSTOMER DRIVEN. WE HAVE ALSO PROVIDED SPECIFIC METRICS TO PROVIDE FOR STANDARDS FUNDING AND AID IN NONAPPROPRIATED FUND FINANCIAL ASSESSMENT. AS A PART OF THE SECRETARY' S QUALITY OF LIFE INITIATIVE, BEGINNING WITH FISCAL YEAR 1996, WE INCREASED FUNDING TO BRING THE MILITARY SERVICES TO A MORE CONSISTENT LEVEL OF APPROPRIATED FUNDING FOR THESE PROGRAMS. THESE FUNDS WERE TARGETED FOR IMPROVEMENTS IN PROGRAMS IN THE MARINE CORPS AND THE ARMY TO BRING THEM TO A MORE CONSISTENT PER CAPITA LEVEL OF DIRECT APPROPRIATED FUND SUPPORT. HOURS OF OPERATION WERE EXPANDED IN MANY LOCATIONS AND MUCH NEEDED MAINTENANCE WILL BE PERFORMED ON REAL PROPERTY. CONSISTENT WITH THE RECOMMENDATIONS OF THE MARSH QUALITY OF LIFE TASK FORCE, THE NAVY HAS INCLUDED RESOURCES IN THEIR FISCAL YEAR 1997 BUDGET TO IMPROVE FITNESS CENTERS AND LIBRARIES AFLOAT, AN ACTION THAT WILL IMPROVE QUALITY OF LIFE ABOARD MORE THAN 350

SHIPS. THE DEPARTMENT'S BUDGET FOR FISCAL YEAR 1997 INCLUDES \$187 MILLION IN APPROPRIATED FUND SUPPORT FOR PHYSICAL FITNESS.

OUR PLANS FOR NEXT YEAR WILL BUILD ON THESE INITIATIVES. WE WILL BE EXAMINING THE PROGRAMS AND FACILITIES WE PROVIDE FOR PHYSICAL FITNESS ON OUR INSTALLATIONS AND WORKING WITH THE MILITARY DEPARTMENTS TO BUILD ACTION PLANS TO ADDRESS ANY SHORTCOMINGS. WE WILL CONTINUE TO PROMOTE INNOVATIVE SOLUTIONS FOR PROGRAM DELIVERY, ENCOURAGE PARTNERSHIPS, PUBLIC/PRIVATE VENTURES AND COMMUNITY AGREEMENTS WHEN IT MAKES SENSE. WE WILL ALSO CONTINUE TO PROMOTE COOPERATIVE EFFORTS AMONG THE MILITARY SERVICES AND EXCHANGE PROGRAMS AS ANOTHER AVENUE TO REDUCE OVERHEAD, INCREASE SERVICE, AND REDUCE COSTS. FINALLY, WE WILL MONITOR OUR JOINT EXECUTION OF PROGRAM GOALS TO INCREASE CONSISTENCY OF SERVICE FOR OUR TOTAL FORCE.

WE ARE ALSO MOVING AHEAD WITH THE DEMONSTRATION PROJECT FOR UNIFORM FUNDING OF MWR ACTIVITIES WHICH WAS AUTHORIZED IN THE FISCAL YEAR 1996 AUTHORIZATION ACT. WE BELIEVE THAT THE FUNDING CONCEPT AUTHORIZED FOR THE TEST HAS THE POTENTIAL TO IMPROVE OUR PROGRAMS AND HELP COMMANDERS THROUGHOUT THE

DEPARTMENT. WE WILL SHARE OUR FINDINGS WITH THE PANEL AS WE GAIN REAL WORLD EXPERIENCE THROUGH THE TEST.

MWR Cooperative Efforts

THE DEPARTMENT'S RESALE BOARD HAS UNDERTAKEN THE STUDY OF MANY COOPERATIVE EFFORT INITIATIVES, INCLUDING SEVERAL MWR AND MWR RELATED INITIATIVES. I WOULD LIKE TO GIVE YOU SOME EXAMPLES:

- IN SUPPORT OF JOINT SERVICE ENTERTAINMENT THE SERVICES HAVE AGREED TO SHARE EVENT INFORMATION THROUGH A WORLDWIDE COMPUTER WEB AND MAKE BLOCK BOOKINGS WHEN FEASIBLE.
- COMMON EMPLOYMENT STANDARDS TO ASSIST IN RECRUITMENT OF NAF MANAGEMENT TRAINEES. COMMON EMPLOYMENT STANDARDS HAVE BEEN DEVELOPED AND WILL BE IMPLEMENTED IN THE FISCAL YEAR 1997 TRAINEE RECRUITMENT EFFORT.
- DOD-WIDE MWR TRAINING CONSOLIDATION. (SIX ARMY AND SEVEN AIR FORCE CANDIDATE COURSES SELECTED FOR REVIEW.)

IN PREVIOUS TESTIMONY BEFORE THE PANEL, THE DEPARTMENT COMMITTED TO THE DEVELOPMENT OF AN OSD MWR STRATEGIC PLAN. MY STAFF HAS DEVELOPED A NEW DEPARTMENT OF DEFENSE INSTRUCTION THAT MANDATES STRATEGIC PLANNING. THIS WILL ENCOURAGE MWR PROGRAM EFFICIENCIES. EXAMPLES OF SUCCESS STORIES WHERE THE SERVICES ARE ENGAGED IN JOINT PROGRAMS TO REDUCE COST, IMPROVE EFFICIENCIES, AND INCREASE PROFITS ARE:

- ALL SERVICES MAY USE AIR FORCE NONAPPROPRIATED FUND PURCHASING OFFICE CONTRACTS.
- USE OF COMMON STANDARDS FOR MWR MANAGEMENT INFORMATION SYSTEM SOFTWARE, HARDWARE, AND COMMUNICATIONS.
- JOINT WORKSHOPS, TRAINING SESSIONS, AND CONFERENCES

LET ME NOW TURN TO OUR COMMISSARY SYSTEM AND MILITARY EXCHANGES.

COMMISSARIES AND EXCHANGES

Defense Commissary Agency

THE COMMISSARY SYSTEM IS AN IMPORTANT ELEMENT OF THE MILITARY NON-PAY COMPENSATION PACKAGE AND A CRITICAL ASPECT OF QUALITY OF LIFE. SECRETARY PERRY REMAINS FIRM THAT THIS BENEFIT MUST NOT BE ERODED. COMMISSARIES ENHANCE INCOME THROUGH A 29 PERCENT SAVINGS ON PURCHASES OF FOOD AND HOUSEHOLD ITEMS FOR THE MILITARY MEMBER AND FAMILY. THE IMPORTANCE OF COMMISSARIES FOR THOSE STATIONED OVERSEAS CANNOT BE OVERSTATED -- THEY ARE OFTEN THE ONLY SOURCE OF AMERICAN PRODUCTS. IN ISOLATED OR REMOTE AREAS, THEY ARE THE ONLY CONVENIENT SOURCE OF GROCERIES.

WE CONTINUE TO WORK TOWARD GREATER EFFICIENCIES IN OUR COMMISSARY STORES. I AM PLEASED TO BRING YOUR ATTENTION TO THE FACT THAT THE DEFENSE COMMISSARY AGENCY RECENTLY RECEIVED THE HAMMER AWARD FOR THE ACCOMPLISHMENTS OF THE AGENCY'S OPERATION SUPPORT CENTER. THE AWARD RECOGNIZED THE ESTABLISHMENT OF A NEW SYSTEM FOR ORDERING AND RECEIVING PRODUCTS FOR OVERSEAS STORES, AND TWO OTHER INNOVATIVE BUSINESS PRACTICES -- RESALE ORDERING AGREEMENT AND DELIVERING TICKET INVOICING. THESE INNOVATIONS GREATLY IMPROVE OVERSEAS ORDER/SHIP TIME, DRAMATICALLY REDUCE THE NUMBER OF CONTRACTS THE AGENCY HAS WITH VENDORS AND BOOSTS TIMELY PAYMENTS.

AS I HAVE STATED, THE SECRETARY OF DEFENSE REMAINS COMMITTED TO PRESERVING THE COMMISSARY BENEFIT FOR SERVICE MEMBERS. AT THE SAME TIME HE WANTS US TO LOOK FOR NEW WAYS TO SAVE MONEY AND STREAMLINE OPERATIONS. TOWARD THIS END, SECRETARY PERRY NOMINATED THE DEFENSE COMMISSARY AGENCY FOR THE PERFORMANCE BASED ORGANIZATION (PBO) GOVERNMENT-WIDE REINVENTION PROGRAM.

ON MARCH 4, WE LEARNED THAT THE DEFENSE DEPARTMENT'S COMMISSARY AGENCY WAS ONE OF EIGHT FEDERAL AGENCIES BEING CONSIDERED FOR CONVERSION TO A PBO.

WE BELIEVE THAT PBO STATUS HOLDS POTENTIAL TO PROVIDE DECA GREATER FLEXIBILITY WHILE HOLDING THE AGENCY ACCOUNTABLE FOR ITS PERFORMANCE. TO THE EXTENT THAT GREATER EFFICIENCIES RESULT, THERE WOULD BE APPROPRIATED FUND SAVINGS FOR THE TAX PAYER AND IMPROVED CUSTOMER SERVICE.

DECA IS A LEADER IN THE GROCERY BUSINESS. THIS IS A SUCCESS STORY WE SHOULD ALL BE PROUD OF SINCE IT OCCURRED NOT ONLY AS A RESULT OF THE MAJOR GENERAL BEALE'S EXCEPTIONAL LEADERSHIP,

BUT ALSO BECAUSE THE DEPARTMENT, CONGRESS AND INDUSTRY WORKED TOGETHER TO MAKE THIS HAPPEN. DECA HAS ALREADY SAVED \$302.6 MILLION FOR BOTH THE TAXPAYER AND CUSTOMER SINCE IT BECAME A JOINT AGENCY IN 1992 AND A PILOT AGENCY UNDER THE GOVERNMENT PERFORMANCE AND RESULTS ACT IN 1994.

AS OF OCTOBER 1995, THERE WERE 201 COMMISSARIES IN THE UNITED STATES AND 111 OVERSEAS.

Military Exchanges

EXCHANGES SUPPORT SERVICE MEMBERS AND MILITARY FAMILIES BY PROVIDING GOODS AND SERVICES TO THEM AT AFFORDABLE PRICES. THE EXCHANGES ALSO GENERATE REVENUES THAT FUND RECREATIONAL ACTIVITIES DESIGNED TO PROMOTE READINESS, INDIVIDUAL AND COMMUNITY FITNESS, ESPRIT DE CORPS AND THE PERSONAL DEVELOPMENT OF THOSE WHO SERVE THEIR COUNTRY. TO THIS END, THE EXCHANGE SERVICES PAID OVER \$248 MILLION IN DIVIDENDS TO DEPARTMENT MWR PROGRAMS IN FISCAL YEAR 1995.

THE EXCHANGES CONTINUE TO IMPROVE INDIVIDUAL PRODUCTIVITY TO MAINTAIN PROFIT LEVELS AND MARKET SHARE. INDIVIDUAL AND COOPERATIVE EFFORTS ARE REDUCING COSTS AND IMPROVING SERVICE THROUGH THE ADOPTION OF BEST BUSINESS PRACTICES. INDIVIDUALLY,

THE EXCHANGES ARE IN THE PROCESS OF MODERNIZING INFRA-STRUCTURE AND TECHNOLOGY TO MEET INDUSTRY AND DEPARTMENT STANDARDS. THE INVESTMENT IN COOPERATIVE EFFORTS HAS BEEN YET ANOTHER VEHICLE FOR BRINGING THE EXCHANGES TOGETHER THROUGH ADOPTION OF BEST BUSINESS PRACTICES AND SYSTEMS.

I'D LIKE TO HIGHLIGHT THREE SUCCESSFUL COOPERATIVE EFFORTS WHICH WE ARE CONTINUING TO EXPAND:

THE FIRST IS AN INITIATIVE ON LONG RANGE DISTRIBUTION WHERE OUR EXCHANGES ARE COOPERATING THROUGH SHARED USE OF DISTRIBUTION CENTERS, SHARED USE OF VAN STUFFING, AND BACKHAULING INITIATIVES. CURRENTLY THE MARINE CORPS USES THE AAFES AND NAVY EXCHANGE SERVICE DISTRIBUTION CENTERS TO PROVIDE MERCHANDISE TO 15 EXCHANGES, WHILE NEXCOM ALSO PROVIDES VAN STUFFING FOR MARINE EXCHANGES AT IWAKUNI AND KANEOHE BAY AT A 30 PERCENT SAVINGS -- SAVINGS THAT END UP BACK IN THE POCKETS OF OUR MARINES. THE EXCHANGE SERVICES ARE WORKING TO TAKE ADVANTAGE OF FURTHER OPPORTUNITIES IN THIS AREA.

OUR EXCHANGES HAVE ALSO MOVED AGGRESSIVELY INTO A PROGRAM TO DEVELOP COMMON LABEL PROGRAMS FOR ALL SERVICES. THE NEW

JOINT PRIVATE LABEL, "AMERICAN MERCANTILE," IS ALREADY BEING USED ON FILM AND SINGLE USE CAMERAS, TAPES AND STRAPPING MATERIAL, PAPER AND PLASTIC PRODUCTS, LUGGAGE, AND BATH AND BODY PRODUCTS. STILL TO COME ARE PRIVATE LABEL COOKWARE, SUNCARE PRODUCTS, AND CANDY. AS A RESULT, WE HAVE BEEN ABLE TO PROVIDE OUR CUSTOMERS WITH A SAVINGS OF 17 TO 50 PERCENT OFF THE COST OF NATIONAL BRAND ITEMS.

A THIRD EFFORT, THE SHARING OF FOOD CONCEPTS BETWEEN OUR EXCHANGES, HAS BEEN ONGOING FOR SOMETIME. I AM PLEASED TO REPORT THE CONTINUED SUCCESS OF THIS PROGRAM, AND OUR MOST RECENT ACCOMPLISHMENTS. THE ARMY AND AIR FORCE EXCHANGE SYSTEM, THROUGH COOPERATIVE NEGOTIATIONS WITH THE NAVY AND MARINE CORPS, WILL BE PUTTING ADDITIONAL AAFES PROPRIETARY IN-HOUSE BRANDS IN OVER TWO DOZEN INSTALLATIONS WORLDWIDE. THIS APPROACH INCLUDES THE SHARING OF PROCUREMENT OF FOOD PRODUCTS, CONSOLIDATED TRAINING PROGRAMS THAT HAVE INCLUDED THE ARMY MWR COMMUNITY, AND CONSTRUCTION DESIGN AND SUPERVISION.

DURING THE PAST YEAR, THE DEPARTMENT TOOK A HARD LOOK AT ITS POLICIES THAT DESCRIBE WHERE AND WHEN WE CAN OPERATE

EXCHANGES AND COMMISSARIES. WE DID THIS IN AN ATTEMPT TO BALANCE OUR QUALITY OF LIFE INITIATIVES WITH THE HARD REALITIES OF BASE CLOSURES AND REALIGNMENTS. WE DISCOVERED THAT IN MANY INSTANCES, ACTIVE DUTY PERSONNEL WERE REMAINING ON OR IN THE IMMEDIATE VICINITY OF MANY OF THESE INSTALLATIONS. THIS PAST YEAR, WE BEGAN A NEW WAY OF DOING BUSINESS AND REWROTE DEPARTMENT POLICY TO MAINTAIN CERTAIN EXCHANGE OPERATIONS AND COMMISSARIES ON THOSE INSTALLATIONS WHERE A SIGNIFICANT NUMBER OF ACTIVE DUTY SERVICE MEMBERS REMAINED.

RECOGNIZING THAT FULL AND PART-TIME MEMBERS OF THE RESERVE COMPONENTS COULD LOSE THE EXCHANGE OR COMMISSARY THEY HAVE AS INSTALLATIONS CLOSED OR REALIGNED, WE OPENED UP A NEW BX MART AT HOMESTEAD AIR FORCE RESERVE BASE IN FLORIDA. THE BX MART AT NAVAL AIR STATION (NAS) FORT WORTH, FORMERLY CARSWELL AIR FORCE BASE, TEXAS, HAS COMPLETED ITS SECOND YEAR OF OPERATION. ALTHOUGH THE BX MART WAS NOT FINANCIALLY VIABLE AS A STAND ALONE OPERATION, OVERALL EXCHANGE OPERATIONS WERE MARGINALLY PROFITABLE. BECAUSE OF THE MARGINAL PROFITABILITY OF THE FORT WORTH TEST, WE ARE NOT YET ABLE TO ENDORSE THIS AS FUTURE POLICY OF THE DEPARTMENT. WE WILL CONTINUE TO EVALUATE OUR TEST SITES FOR OVERALL PROFITABILITY, AND THE OVERALL

IMPACT ON THE MWR DIVIDENDS. WE WILL ESTABLISH FUTURE TEST BX MARTS ONLY WHERE PROGRAMS INDICATE A PROFITABLE OUTCOME.

Other Community And Exchange Initiatives

Construction

OVER THE PAST SEVERAL YEARS WE HAVE SIGNIFICANTLY REVAMPED THE PROCESS FOR DEVELOPING, REVIEWING AND SUBMITTING TO THE CONGRESS THE COMMISSARY SURCHARGE AND NAF CONSTRUCTION PROGRAMS. IN OUR CONTINUING EFFORT TO IMPROVE THIS SUBMISSION, WE DEVELOPED AND INSTITUTED NEW QUANTITATIVE AND QUALITATIVE CRITERIA FOR DETERMINING CONSTRUCTION REQUIREMENTS. OUR COMMANDERS WILL NOW INCLUDE WITH THEIR CONSTRUCTION PROGRAMS SUCH MEASURES AS NET PRESENT VALUE, INTERNAL RATE OF RETURN AND PAYBACK CALCULATIONS. ADDITIONALLY, IN RESPONSE TO YOUR CONCERNS, THE DEPARTMENT IS DEVELOPING A NEW SIZING MODEL FOR COMMISSARY CONSTRUCTION PROJECTS AND NEW VALIDATION CRITERIA.

Credit

LAST YEAR I REPORTED WE HAD DEVELOPED A NEW CREDIT POLICY IN THE EXCHANGES. SINCE THAT TIME, OUR EXCHANGES HAVE INSTITUTED CREDIT CHECKS ON ALL NEW ACCOUNTS AND SHORTLY THE NAVY

EXCHANGE SYSTEM AND MARINE CORPS EXCHANGE SYSTEM WILL JOIN THE ARMY AIR FORCE EXCHANGE SERVICE IN RECEIVING A STANDARDS & POORS RATING. SYSTEMS RESEARCH AND APPLICATIONS CORPORATION IS NOW COMPLETING THE SECOND PART OF A THREE PART EFFORT ON CREDIT. WE WILL INFORM YOU OF SUCH ACTIONS AS WE MAY TAKE BASED ON THE RECOMMENDATIONS OF THIS REVIEW. PART THREE OF THIS EFFORT WILL BEGIN SOON. IT WILL REVIEW AND MAKE RECOMMENDATIONS ON THE MWR CREDIT PROGRAMS.

Financial Health

THE FINANCIAL HEALTH OF THE EXCHANGES IS CLEARLY CRITICAL TO SUSTAINING EXCHANGE AND MWR BENEFITS. WITH INCREASED COMPETITION FROM NATIONAL DISCOUNTERS "OUTSIDE THE GATE," THE DEPARTMENT MUST ASSURE THAT THE EXCHANGE SYSTEMS ARE KEEPING PACE AND ARE THE BEST MEANS FOR DELIVERING THE RETAIL BENEFIT AND CONTRIBUTING SUPPORT TO THE MWR PROGRAM. UNDER OUR CURRENT DELIVERY MODEL, ONLY A ROBUST AND SUCCESSFUL EXCHANGE SERVICE CAN PROVIDE THE DIVIDENDS NEEDED TO SUPPORT MWR PROGRAMS.

IN THE LAST YEAR, THE DEPARTMENT BEGAN TO PERIODICALLY REVIEW THE STATUS OF THE EXCHANGE SYSTEM FINANCIAL HEALTH AND

OPERATING PERFORMANCE. OUR PURPOSE IS TO EXERCISE OVERSIGHT OF THE EXCHANGES THROUGHOUT THE YEAR AND ENSURE THAT WE MAINTAIN A PROPER BALANCE BETWEEN DELIVERING EXCHANGE SERVICES AT A SAVINGS TO CUSTOMERS AND SUPPLEMENTING THE MWR PROGRAM.

EARLIER THIS MONTH, THE EXCHANGES REPORTED THEIR PRELIMINARY, UNAUDITED OPERATING RESULTS FOR THE 1995 RETAIL YEAR THAT CLOSED OUT THE END OF JANUARY 1996. THE OVERALL EXCHANGE SYSTEM PERFORMANCE IS MIRRORING THE DRAWDOWN. SALES ARE DOWN 5 PERCENT, PROFITS ARE DOWN 15 PERCENT, AND THE DIVIDEND DECLINED ABOUT 10 PERCENT OR \$25 MILLION.

THIS IS NOT TO SUGGEST THAT THE EXCHANGE SERVICES ARE PASSIVELY EXPERIENCING DRAWDOWN. CHANGES ARE TAKING PLACE TO ACHIEVE REAL GROWTH IN SALES, PROFITS AND DIVIDENDS. LATER THIS MORNING, THE EXCHANGE SERVICES WILL DESCRIBE ONGOING CHANGES TO MANAGEMENT STRUCTURES, BUSINESS SYSTEMS, AND RETAILING INITIATIVES.

Public Private Ventures (PPVS)

IN A CONCERTED EFFORT TO SAVE NONAPPROPRIATED FUNDS AND WORK MORE CLOSELY WITH THE PRIVATE SECTOR, THE DEPARTMENT IS DEVELOPING MORE PUBLIC-PRIVATE VENTURES. I REPORTED TO YOU LAST YEAR OUR EFFORTS IN MEDICAL CONCESSIONS. I AM PLEASED TO REPORT THAT WE HAVE NOW ESTABLISHED FIVE OPTOMETRY AND DENTAL CONCESSIONS AND THAT OUR EXCHANGES HAVE PLANS FOR MANY MORE. THESE VENTURES BENEFIT OUR PATRONS, THE LOCAL COMMUNITIES AND, THROUGH INCREASED EXCHANGE REVENUE, OUR MWR PROGRAMS. ADDITIONALLY, WE'VE RECENTLY DEVELOPED PROPOSALS FOR PUBLIC-PRIVATE VENTURES FOR MULTIPLEX THEATERS, FAMILY ENTERTAINMENT CENTERS, CAR WASHES, MARINAS, GOLF COURSES, AND FOOD COURTS. WITH THE REALITY OF LIMITED NAF RESOURCES, THIS IS PROVING TO BE AN EFFECTIVE WAY OF PROVIDING SERVICES TO SERVICE MEMBERS AND THEIR FAMILIES. PUBLIC PRIVATE VENTURES ENABLE US TO PROVIDE NEEDED SERVICES OVER A MUCH SHORTER TIME FRAME. THESE INITIATIVES NOT ONLY PROVIDE NEW FACILITIES, THEY UPGRADE SERVICES TO INDUSTRY STANDARDS. FOR EXAMPLE, THE MULTI-PLEX THEATER AT FORT BENNING WILL BE SHOWING FIRST RUN MOVIES.

IN RESPONSE TO YOUR DIRECTION I HAVE ALSO ASKED THE SERVICES TO DEVELOP IMPLEMENTATION PLANS FOR PUBLIC-PRIVATE CONCESSION

LEISURE VACATION ALTERNATIVES ALL GEARED TOWARD SAVING
NONAPPROPRIATED FUNDS THROUGH REDUCING CONSTRUCTION
REQUIREMENTS, AS WELL AS PROVIDING A SAVINGS OF APPROPRIATED
FUNDS.

MR. CHAIRMAN, IN ALL OF OUR ACTIVITIES, WE WILL CONTINUE TO WORK
TO SEE THAT SERVICE MEMBERS, MILITARY FAMILIES, AND THE
TAXPAYERS RECEIVE THE BEST POSSIBLE VALUE FROM OUR MWR AND
RESALE PROGRAMS.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. I
AM PREPARED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Mr. MCHUGH. Thank you, Mr. Secretary.

Let me first express our appreciation for your comments, both your written statement and your oral testimony, and also say the old adage, "Our loss is your gain," in terms of Steve Rossetti. And we wish him all the best. He is certainly no stranger, I know, to most everyone in this room, and was the guiding force, truly, of this panel over the past several years.

I would say, however, if the questioning here today gets a little tough, you might want to blame him, because he was here long enough to help us formulate some of the issues here.

Before turning the attention of the room to General Beale, let me echo your words of appreciation to the General. General Beale has done an incredible job over the past 3½ years as the head of DECA. We all deeply appreciate the service he has rendered, to this panel and to the National Security Committee and the Congress, but more importantly, to this Nation and to the people in uniform who look to him for maintaining that benefit and, in fact, enriching the benefit through his hard work.

General Beale, on behalf of the panel, we wish you all the very best in the future. And we know there are even greater horizons for you to approach and conquer.

General BEALE. Thank you, sir.

Mr. MCHUGH. Thank you. And with that, we would be pleased and honored to hear your testimony.

STATEMENT OF MAJ. GEN. RICHARD BEALE, JR., DIRECTOR, ARMY DEFENSE COMMISSARY AGENCY

General BEALE. Mr. Chairman, members of the panel. Mr. Chairman, with your permission, I have submitted a written statement for the record.

Mr. MCHUGH. Without objection, so ordered.

General BEALE. Mr. Chairman, panel members, 3 years ago I was sent to DECA by the Defense leadership, some of you, and others who served on this great Panel with three simple instructions: fix billpaying, reduce operating costs, and improve the value of the benefit to service members. Please permit me to report that we have done all three.

We have fixed billpaying, and currently rank No. 1 in DOD for on-time payments to vendors. We have reduced operating costs to a new low, and have increased patrons' savings to an all-time high.

DECA's reengineering and streamlining efforts have dramatically reduced operating and inventory costs. In the first 4 years of DECA's existence, we have saved the Department \$300 million, against \$90 million of projected savings by the Jones Commission. We expect those savings to approach \$500 million by the end of our 6th year of operation. And that has all been done without enhanced business systems.

But in the past several months, we have awarded contracts for state-of-the-art business systems, and we anticipate that these capabilities will present further opportunities for savings.

Additionally, we have just completed our 1996 market basket price survey, and are extremely excited with the results. Our customers have experienced a significant increase in savings. Average savings now exceed 29 percent. That is 6 percent more than the

savings determined by our 1992 market basket survey. And this is what the commissary is all about: keeping pay in service members' pockets.

But what is next? I truly hope the answer is for DECA to become a performance-based organization. To us, the concept is very exciting. While we are still working out many of the details, with your help we expect to achieve more efficiencies while further reducing the commissary's dependence on appropriated funds.

For example, in the area of acquisition management, the Office of Federal Procurement Policy has already proposed simplified procedures to acquire information technology and to limit recompetition necessary to support continuing requirements. These proposals will reduce administrative costs and overhead, while enhancing DECA's retail operations.

We also see great promise in developing additional capability to manage the high personnel turnover areas in our stores. Coupling this with broad-banding of pay, DECA could manage our store workers in a manner which closely resembles that of the grocery industry.

Another ripe area for savings resurrects an original idea behind the Defense Business Operations Fund [DBOF], allowing DECA to obtain services from the most cost-effective source. A significant reduction in operating costs can be gained by using commercial sources to obtain such services as telecommunications support and repair and maintenance for our facilities.

Mr. Chairman, in closing, I would like to take this opportunity to thank panel members and staff for their support and encouragement during my tour at DECA. While DECA has faced many challenges during my tenure, the support and confidence of the panel made our job much easier.

As always, I leave my post with mixed feelings. I leave knowing the commissary is in good shape for the immediate future, but I also leave knowing that the excitement has just begun. Thank you.

[The prepared statement of General Beale follows:]

STATEMENT OF
MAJOR GENERAL RICHARD E. BEALE, JR.
DIRECTOR, DEFENSE COMMISSARY AGENCY
BEFORE THE
MORALE, WELFARE AND RECREATION PANEL
OF THE
COMMITTEE ON NATIONAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES
SECOND SESSION, 104th CONGRESS
MARCH 27, 1996

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BY THE HOUSE NATIONAL SECURITY COMMITTEE

Mr. Chairman and Members of the Panel, it has been an exciting and busy year at the Defense Commissary Agency (DeCA). We have reduced operating costs to a new low and increased patron savings to an all time high. When I came to DeCA three years ago, we talked of benchmarking on industry. Today, we are a leader, and our industry trading partners look to DeCA for solutions. But as I have promised in the past, DeCA has not and will not stop. The men and women of DeCA are committed to achieving more. While this will be my last report to you as the Agency's Director, I leave assured in the knowledge that acceptance of the Vice President's nomination of DeCA to be a Performance Based Organization will safeguard the commissary's important contribution to the total compensation package for the soldiers, sailors, airmen and marines who have, and who continue to deserve, our nation's support.

DeCA's re-engineering and streamlining efforts are showing dividends for the taxpayer. From a high of \$1,272 million in FY 1993, DeCA will have reduced its' operating costs to \$939 million by the end of FY 1997. To accomplish this, we have reorganized to achieve greater efficiencies and cost reductions by eliminating duplication and centralizing such functions as contracting, category management, buying, merchandising and distribution. In addition, we will have achieved one-time inventory savings totalling \$161 million in resale stocks with the implementation of our stateside frequent delivery system and a recently implemented system to order and receive goods for overseas stores. The inventory savings are compared to stockage levels capitalized in October 1991. These combined reductions vastly exceed the predictions of the Jones Commission which targeted savings of \$90 million in the first four years of operation. And, we will deliver this

substantial sum in spite of the lack of a business management information system.

We have recently awarded the contracts for the modernization of our business systems and we will begin deployment before the end of this calendar year. I anticipate these systems will present many further opportunities for savings. Examples of a few of the labor and other savings we expect from these automation modernization programs include computer assisted ordering, automated coupon processing, and electronic shelf labels. Computer assisted ordering will allow over 90 percent of the merchandise to be ordered by computer. It will determine the amount of goods needed to replace those sold as measured by the scanner at the front of the store rather than the current labor intensive requirement of personnel physically walking the aisles and entering an order manually. Our new system will also allow coupons to be scanned into the system so they can be electronically processed for reimbursement from the manufacturers. A significant labor intensive task will be eliminated when the electronic shelf labels are installed. In the future, we'll be able to update the prices at a push of a button replacing the current practice of printing shelf labels, manually searching the shelves for the correct product and posting the new price label. When the deployment of our new business systems is complete we anticipate even further savings with the efficiencies they will deliver.

Last year I told this Panel that with all the challenges DeCA faced we had not yet had time to concentrate our merchandising efforts to realize the full potential savings available for our patrons. We recently completed the 1996 formal market basket price comparison study to determine differences between commissary and private sector supermarket prices and the savings to patrons. I am delighted with the results! Our customers have experienced a

significant rise in savings. The study, which conformed to the methodology recommended by the DoD Inspector General, disclosed an average savings of 29.7 percent to the commissary patron. That's 6.3 percent more than the 23.4 percent savings in the last market basket price comparison study conducted in 1992. This means that the typical E-4 with over four years of service, with a family of four who does all their grocery shopping at the commissary, saves \$1,581 per year. The commissary savings amounts to 6.8 percent of their total income, which is money available to this typical military family for other living expenses.

This is what your predecessors designed the commissary to do. Put pay in the service member's pocket! Furthermore, with a low operating gross margin and tremendous savings for the patron, I believe no one can deliver this portion of the service member's total compensation package better than DeCA!

We continue to maintain the trust of our employees. On February 20, 1996, DeCA signed a labor agreement with the National Association of Government Employees (NAGE). Even though there are 26 separate local store units and one region headquarters unit represented by NAGE, a single labor agreement was negotiated to apply to all of those employees. This was a major first for DeCA. In addition, DeCA is currently negotiating an agreement with the American Federation of Government Employees (AFGE) to cover all AFGE units nationwide. The National Federation of Federal Employees (NFFE) has also requested a nationwide agreement. These nationwide agreements are unusual in that local bargaining units agreed to abide by the terms of collective bargaining agreements negotiated by a team of managers and unit employees. Nationwide agreements ensure consistency in commissaries and save time and effort at the bargaining table on the part of

management and the unions. We think that these efforts are directly in line with the cooperative relationship envisioned by the President and the National Performance Review.

We also continue to maintain the respect of our trading partners. One of the greatest labor savings initiatives implemented by DeCA and industry has been the Delivery Ticket Invoicing (DTI). DTI is a payment method whereby the delivery ticket or receipt accompanying each commissary delivery also serves as the commissary supplier's invoice or demand for payment. In Fiscal Year 1995, commissary suppliers were paid \$1.6 billion using DTI. This represented 34 percent of the dollars we paid them. Some companies told us they were receiving payment before they could establish their accounts receivable. But, they quickly added they were very happy to get paid that quickly. Commissary bill paying performance exceeded the DoD average in Fiscal Year 1995 with 98 percent of its invoices paid on time. This all time high was due largely to DTI. We expect our DTI payments will approach \$3.6 billion in Fiscal Year 1996. When we started DTI it was to prevent the bill paying problems of the past. We did not realize that DTI would become the financial concept industry would adopt as its benchmark. Those in industry who have tried it agree that electronic commerce truly makes doing business with the government easier and cheaper.

As an undisputed leader in electronic commerce, by partnering with industry, DeCA has become a forerunner in other areas as well. The most significant of those is category management. Stated simply category management seeks to put the right product, at the right price, in the right place, in the right amount on the shelf to meet the patron's needs. This is accomplished when our category managers make decisions on all similar

items in a category instead of focusing on a single product traditionally followed in the grocery industry. All of the products carried in our stores are divided into distinctly manageable groups, for example, ready to eat cereal. Instead of just buying the lowest priced items, our buyers seek the largest savings for the highest volume sellers in a category. This practice has not only improved our buying practices and reduced our industry partner's costs, but also played a significant role in achieving the tremendous savings reported in our 1996 Market Basket Survey. Both industry and DeCA are excited about the further potential of category management which seeks to drive excess costs out of both the manufacturer's and the retailer's business.

Can we do more? The answer is a resounding YES! I believe the vehicle to deliver further efficiencies lies in the March 4, 1996, announcement by the Vice President that DeCA is a candidate to become a Performance Based Organization. While we have not worked out the details as of yet, the concept is exciting and we expect to gain many efficiencies in all aspects of DeCA's operations. I believe that becoming a Performance Based Organization will provide further opportunities for reducing the commissary system's dependence on appropriated funds. I believe becoming a Performance Based Organization will allow DeCA to maintain a high level of customer satisfaction in an environment of downsizing and reduced resources. I believe becoming a Performance Based Organization will afford DeCA greater operational flexibility and increased opportunities for cost efficiencies while holding the Agency accountable for its performance. While stressing his continued commitment to preserving the commissary benefit for service members while looking for ways to save appropriated funds and streamline operations, the Secretary of Defense showed great faith in nominating DeCA

to be a Performance Based Organization. With your support, we will not disappoint him!

In closing, I would like to take this opportunity to thank you for your support during my tour at DeCA. The legislative initiatives you enacted earlier this year will allow DeCA to further reduce operating costs. Your early release of the Fiscal Year 1996 construction program will help provide much needed facilities upgrade for our service members and our work force. While DeCA has faced many challenges during my tenure, the support and confidence of the Panel made our job easier. As always, I will leave my post as the Director of the Defense Commissary Agency with mixed feelings. I leave knowing the commissary is in good shape for the immediate future; but I also leave knowing the excitement has just begun!

Mr. MCHUGH. Thank you, General Beale. We appreciate your brevity as an attempt to forward the hearing today.

Let me now start with Secretary Pang. Mr. Secretary, I know the other members of the panel and I were very much concerned when we heard you suggest that you need the support of Congress, and we appreciate that. It is not so much a question of ego as it is a concern we all share that these initiatives as they are examined and considered are done in a way that does not unnecessarily disrupt the delivery of this important benefit.

PBO concerns us. It certainly concerns me. Not so much for the intent, and not so much as I understand the historical structure of a PBO—the British model—but more as to how we intend to implement it here with respect to DECA.

Can you share with us any of the details, particularly with respect to some of the flexibility that you spoke about—the regulatory burdens, the easing of those? What do you envision that meaning in specifics? Do you have any idea yet as to the kinds of things you would be looking to jettison from a regulatory perspective, or asking this Congress to change from a legislative perspective?

Mr. PANG. Well, Mr. Chairman, I think it is fair to say that, as you know, this project is in its infancy. We are in the process of trying to figure that out, quite frankly. General Beale has come over and we have had one discussion on this topic thus far, and it is exploratory in nature.

And basically, the guidance was: Do a no-holds-barred, you know—an analysis of what it is you would like to do so that you can operate purely as a business proposition; so that we know and understand everything that you would want, in terms of flexibilities.

Having said that, I know that there are some matters which concern unions, that concern employees, and that concern people who provide services to the commissary agencies. So, I think the approach we are going to take once we get the input is what I would call a green-light, yellow-light, red-light approach to the whole thing.

There are some areas we can move out fairly smartly on, achieve efficiencies on, with regard to hiring people, with the way we do our accounting, with the way we purchase or acquire computer systems, and the like. I think some of those are relatively simple to do.

I think the ones that have to do with personnel flexibilities, with regard to hiring temporaries and the like, are going to take a little so I would put those probably in the yellow-light area, because we would have to work with the unions closely on it. I mean, we are not going to do this behind closed doors. We are going to involve the unions. We will keep you abreast of where we are headed in this area.

But I must say that we are at the outset of this thing, and the charge is: Go out there, tell me all the things you want to do, and then let us try to sort them out. That is what we are in the process of doing right now.

Mr. MCHUGH. Well, I appreciate that. I certainly do not want you to be forced into making statements, particularly on the per-

sonnel side—they tend to be a little bit more volatile than some of the other things—and have yourself a union dispute where there may not be need for one. So let us set that category aside.

Obviously, in a PBO the bottom line is important. The intent is to save money, or to generate more money, or a combination therefrom, and to increase efficiencies.

General Beale, for example, as an effort to expand your profitability would you look to expand your offerings in the commissaries? You currently do not offer all of the goods that are offered in an exchange, for example. Would that be something you would look to do?

General BEALE. With all due respect to my colleagues on the Defense Resale Board, I will answer the question in this manner. I could probably draft a scenario where it might—and I underline might—be advantageous for DECA to expand categories. But if it is ever put to a vote of the Defense Resale Board, I can guarantee the panel that it would be six against and one for.

So quite frankly, at the present time, while we have had very limited discussions in DECA, those types of things, from our perspective, are in the category that the Secretary defined as red-light. And that is simply within the Department and under the purview of the panel.

I would not attribute large-scale savings of appropriated dollars to expanding our categories. There might be, and I have to underline might, because there would be a lot of work to do to come out with hard numbers. There might possibly be some savings to our patrons, depending on the flexibility that was provided by the panel under the legal restrictions that guide our stock selection as well as our pricing.

So, the short answer to the question is that it is not something we have discussed extensively in DECA because, quite frankly, even though the Secretary has challenged us to look at all of those areas that would be red-light, yellow-light, or green-light, we are principally focusing on those areas that would be green-light, many of which are within the purview of the Department to waive or redelegate authorities.

Those things that would be more in the yellow-light category, in fact, could probably be embraced by the panel and by the Congress through demonstration projects under the umbrella of OPM or the Office of Federal Procurement Policy.

So we would be within the system, but allowed a little more flexibility than we have right now. And I can cite some examples for the panel, if you would like.

Mr. McHUGH. We would love to hear them.

General BEALE. Let me take one in the personnel area that is not particularly emotionally charged. It is simply that we need a little flexibility that we currently do not have for examining and defining the requirements of a specific position.

It takes us an average of 60 days to hire a replacement cashier because we are forced to go through regional personnel offices of the Defense Logistics Agency. And despite their best efforts to serve us as best they can, we really need the flexibility to hang a sign in the window that says, "Hiring, Apply Within," and hire the person to come to work the next day, and not have to wait for 60

days to have someone examine a DD-214 to determine whether or not the individual is a bona fide veteran and many of the other screenings that could take place, that we could do as competent citizens and Federal employees if the delegation were provided to us.

So, if I could reduce the administrative costs of hiring cashiers—and we have a 60-percent turnover annually on our front end. So, if I could reduce the time to hire from 60 days to 6 days, or 6 hours, it would dramatically save taxpayers' dollars with very little impact on the unions or on the people in general.

Another one that may be a little bit more contentious, but certainly within the practice of what is taking place within government right now: If we could take a lot of high-turnover positions at store level and, instead of hiring in the specific civil service ratings of GS-2, 3, 4, 5 wage-grade equivalents, go to a simplified system of apprentice and journeyman, with pay-banding in those two areas, we could then, instead of being restricted right now to have cashiers only work the cash cage or the cash register, have some flexibility: if we had long lines, bring an apprentice or a journeyman up from the produce section to work the cash register; or if we have a problem on the loading dock, to take someone off the front end to help out in the backroom.

We really need that kind of flexibility that businesses in this country have. And I think those types of things can be done very effectively with minimum changes to the law and minimum disruptions to the rights and benefits that are guaranteed Federal employees.

Mr. MCHUGH. Well, I appreciate that. And I am going to yield to the other members here, because our time is not unlimited and we have a number of other panels. But the things you just cited, General, are certainly things that possibly should be done.

I am not certain that is what the Vice President had in mind when he conceived the totality of the PBO. From what I have heard so far, I do not know that there is an absolute necessity to transform DECA into a PBO. We could, or the Department could, extend to you those kinds of flexibilities without the other kinds of things that are of potential concern.

I do not want to say they are absolutely unacceptable, because we are nowhere near that, but they are of potential concern, because to achieve the full objectives of a PBO you have to do far more radical things than what I have heard thus far. And I suspect that that is, at least in concept, what is being considered.

So my caution would be that we are deeply concerned about the impact of this. And we would like to join this train closer to the station as it is leaving than the next station when it is arriving, because I think we will be far more cooperative in the beginning of the trip than at the end, if that makes any sense.

So we want to work with you, but, to do that, I think we have got to have all the potentials on the table.

General BEALE. Could I make one followup comment that I think is important for the panel to understand?

Mr. MCHUGH. Certainly.

General BEALE. Because it is the environment in which we find ourselves, we gave back 3 years ago—2½ years ago—\$267 million

to the Department, which was a figure that was based on fiscal 1992 constant dollars.

We have gone about as far as we can go until our new business system is in place. So the real question that the panel and the Department must address is, How much additional savings are required of the commissary agency in order to preserve the commissary benefit?

Now, if we had that answer, we could have a much better idea of how far we would have to go in even the yellow-light, or even suggest in the red-light category. But the problem is—and I can demonstrate this very quickly with numbers—at the end of fiscal 1997, in constant 1992 dollars, we will have achieved over \$300 million in savings because the constant dollars, or the constant 1992's—next year's cost authority would be \$822.9 million, against a high point in 1993 of \$1,125,000,000.

But when you apply inflation and the pay raises that have taken effect in 65 percent of our costs—our labor—our cost authority next year is \$953 million, which is \$130 million above our level of effort.

Now, to put that in personnel terms—and this is really the key point I want to leave you with—the \$267 million that we laid on the table resulted in a reduction of work years of 2,200.

Now, the Department very graciously took what we gave them, and added more. And so our work year ceiling right now is 15,890 by the year 2000. That is 1,410 more work years that we have to take out of the system in the next 4 years, over and above the 2,200 that we will have achieved at the end of fiscal 1997.

Frankly, sir, without a lot of green- and yellow-light waivers, re-delegations and flexibility, it is going to be extremely difficult for this agency to operate with no decrease in benefit to the patron.

That is why we are excited, because it gives us the opportunity to reduce the administrative costs and put the costs where they need to be, which is serving the patron and not spending unnecessary dollars on requirements that contribute virtually nothing to selling low-cost groceries to service members and their families.

Mr. MCHUGH. I do not think anybody on this Panel disagrees with that, General, and I appreciate that.

General BEALE. Thank you.

Mr. MCHUGH. Let me yield to the ranking member, Mr. Browder.

Mr. BROWDER. Thank you, Mr. Chairman.

Thank you for your testimony, Secretary Pang, and thank you for your service, General Beale, and welcome, Steve Rossetti.

I have a few questions for you. You were talking, General Beale, about 29 percent. Do you think we can promise our commissary patrons that that level of savings on food and other purchases will continue under a PBO?

General BEALE. Oh, absolutely. Yes, sir. And, in fact, philosophically, the intent of PBO is twofold: To save precious Federal resources, but at the same time focus on serving the customer, and ensure that the dollars that go into providing the benefit are focused on the customer, as opposed to administrative and other requirements that we have to face right now.

I can give you from the DECA perspective every assurance that that is our intent.

Mr. PANG. I can echo that, Congressman. I mean, the principle is that the existing benefit would be maintained at its current level; in other words, 5 percent over cost. And you know, that translates to the 29 percent that General Beale spoke of.

Mr. BROWDER. Do you think that our personnel will still have access to the variety of products that they now have?

General BEALE. Oh, yes, sir. I mean, in answer to the Chairman's question about whether or not we would expand, that would be questionable and certainly a decision for the Department and the Panel. But we have no intention of reducing the categories that are currently authorized by law.

Mr. BROWDER. Will commissary employees be treated any differently under a PBO than they are now?

General BEALE. Well, the only thinking that is on the table right now, sir, is what we had alluded to earlier, where we are looking at the possibility of some modifications to the hiring practices and the classification of store-level workers, particularly at the apprentice and journeyman level, to create some efficiencies that are not currently built into the civil service system that was designed principally for office work, not running a grocery chain.

So we would propose some changes in management, but it is to reduce the costs associated with keeping the workforce doing what we need them to do, as opposed to the cost of administering the system, which is what we are faced with right now.

Mr. BROWDER. We would be interested in some ideas about those changes.

Secretary Pang, you mentioned a few minutes ago smarter buying. Can you not do that now?

Mr. PANG. I think there are some restrictive policies and, I believe, laws. I think General Beale probably is in a better situation to answer that more than I.

General BEALE. Sir, as far as brand-name buying for those products that appear at the commissary for sale to patrons, we have all the flexibility we need under the brand-name exemptions of the Federal acquisition regulations.

What we are specifically talking about are buying supplies, equipment, and business systems to run the business. I will give you an example. As a result of the Department's major automated information systems review council requirements for buying information technology, to date, on our two business systems—our overview information management system, and then our replacement for point of sales—on our overview system, defense commissary information system, we have spent \$12 million of service members' money and five years of procurement lead time to date, with nothing to show for it than a signed contract.

On our point of sales modernization—which was a little bit less complex, and we learned a lot of hard lessons—we have spent \$4 million to date, and just last month signed the contract with AT&T for those systems.

But the bottom line is, we have spent \$16 million to date of service members' money for two signed pieces of paper because we have had to buy grocery business management equipment the same way the Air Force buys high-performance fighter aircraft.

Mr. BROWDER. Secretary Pang, or General Beale, pardon me if you have referred to this in your testimony, but could you lay out for us the timetable for initiating the PBO?

Mr. PANG. We do not have a fixed timetable at this time. What we are doing is in the exploratory phase. And you know, I must underline the fact that DECA is a candidate to become a PBO. It has got to prove that it can operate efficiently as a PBO. And I think we have kind of reached that conclusion at the outset, and we just want to confirm that.

I do not have a timetable at this point in time. But, I know General Beale has done some work, at least at the outset, that identifies the sorts of changes he would like to see. Let me ask him what he might think is a reasonable time line, assuming that we go to a PBO.

General BEALE. When we initially received the notification from the Department that we were being considered, quite frankly, I had no idea nor did any of us, that the National Performance Review Office would be looking for legislative input for the fiscal 1997 authorization bill.

And, in fact, I had outlined a proposal to Secretary Pang that said, for the balance of this fiscal year we could draft up whatever legislative proposals were required, and whatever proposals were required for departmental waivers and redelegations of authority. And I would have expected on a normal time line to have operated in the balance of fiscal 1997 under department redelegations, and had a year or so to work with the Panel on any legislative initiatives that might be appropriate.

Now, we have been asked by the National Performance Review to accelerate the timetable. We are prepared to do that. But we are also prepared to respond along any time line that the Department and the Panel come to agreement on.

Mr. PANG. Mr. Browder, I think our situation at this time is that we are really at the front end of this, and we really do not have a plan that is spelled out that takes us from where we are today and where we would like to be and the timetable that would take us—what legislative changes we would seek, and so forth.

I think we will be in a better position in about 90 days or so to give a report to this Panel about where we are. I am not certain that at that point we will have a plan that is approved, but we can give you a much better idea of how we intend to proceed.

Mr. BROWDER. Thank you. Mr. Chairman, I have one last question that I would like to ask.

Is this the first step toward privatization of the military commissaries?

Mr. PANG. I do not believe so. There are some people who would like to see this, no question about it—the commissaries privatized. For example, we have a Defense Science Board report that will be issued fairly shortly. It is a pretty thick report, and in that report there is a recommendation that the commissaries be considered for privatization.

You know, there is no real deep analysis that supports that recommendation. It is just that people believe that the commissaries can probably be operated more efficiently if they were privatized.

I think we have examined that in the past, and we do not believe that that is the way we should go. I think the PBO is, I guess for lack of a better term, the middle ground.

Mr. BROWDER. I will close by saying I recommend that you read the Board's report, but that you study the Act of Congress.

Thank you.

Mr. MCHUGH. I thank the gentleman.

Let me just ask a quick followup to the gentleman's question about implementation. We have seen reports that, I believe I am correct in saying, were generated both out of the Vice President's office and also the Defense Department, that suggested pretty clearly that the PBO is intended to be fully implemented in 1997. Is that your understanding, Mr. Secretary?

Mr. PANG. Yes, sir.

Mr. MCHUGH. OK. Thank you.

According to the committee rules, we yield to members in the order in which they had appeared at the time the gavel came down, by seniority, and then after by order of their arrival. In that way, Mr. Sisisky would be our next Panel member.

Mr. SISISKY. Thank you, Mr. Chairman.

And I give you a warm welcome, Secretary Pang, and General Beale. You might tell them where you are located, in Petersburg, VA, at Fort Lee, VA.

General BEALE. Yes, sir, and you are my elected representative.

Mr. SISISKY. I appreciate that. You may not be happy, after I get through. [Laughter.]

And, of course, of Steve Rossetti, who is not only a great staff member but a good friend, you are lucky, Secretary Pang, in being able to have him.

Mr. PANG. I know.

Mr. SISISKY. It is our loss, really.

The reason I say that, General Beale, is that the last 3 days I have been down in Tidewater, VA, at Hampton Roads, talking to business groups about privatization. It seems to me that the Pentagon—and I blame it on the leadership in the Pentagon. And I mean, they know how I feel about it because I have expressed it. Wholesale privatization is something that I cannot believe—and that is what they are doing. They want to privatize everything. There is a thing in there to privatize the whole Norfolk Naval Base. I said, "What in the hell do you think the base is there for? It is there for war."

I told the story that they teach a doctrine at West Point concerning the Napoleonic Wars, Napoleon. And, I tell a story that Napoleon said in his first fight that the King of France privatized all the teamsters there—they are the people who do the horse and wagon—and he was worried about it, but he really got worried when the first cannon shot and everybody jumped off the things and ran to their homes.

I remember Michelle Pfeiffer in that movie with Robert Redford. He says, "Why should we get married? We see each other all the time. We live together." And she said, "I just want to make it legal that you do stay here," you know. So there is a difference between privatization and—and I have a lot more, but I am not going to bore you with it.

I do have some questions that I will submit for the record that maybe you could answer for me. What I am worried about in this PBO, to be very honest with you, is privatization, No. 1. But No. 2, as I view it, this could give you the right to take certain commodities and raise the price on certain commodities. Is it a fair statement that that would happen?

General BEALE. No, sir. No, sir. Without changes to the law, that is not possible. We would continue to sell at cost plus whatever surcharge is assessed by the Department of Defense, because I believe that the Secretary has been given the authority of setting the level of the surcharge. But we would continue to sell at cost. We have no plans to do different.

Mr. SISISKY. Then, if that is the case, you have not convinced me of the dire need of the acronym. Explain it to me again. We can do this without the acronym of PBO. We can give you all kinds of rights—if you need it, a new acquisition law. Does that allow you to do anything?

General BEALE. Absolutely. Yes, sir. And those are exactly the types of things that we need, whether it is new laws or waivers to existing policies and laws that allow us to reduce our operating costs and focus the cost of providing groceries on those things that measurably contribute to selling groceries to service members; as opposed to spending literally hundreds of thousands of dollars annually on requirements that have absolutely nothing to do with our basic mission, which is selling groceries to service members.

Now, I almost have to return a question to the panel, and ask the Panel and ask the Department—which I have, in fact, for 3½ years—if someone were to put a mark on the wall and tell me to what mark we would have to manage, to what level of funding we would have to manage, I could come back and tell you the level of service that we could provide. But the problem that we have is that, during my 3½ years, virtually every study and review has continued to say that we have to reduce the level of appropriated funding to the commissaries.

So what we are attempting to do is to take as many of the non-productive costs out of the system as we possibly can, to ensure that the few dollars that we have are, in fact, spent on providing groceries at cost to service members.

Mr. SISISKY. I do not disagree with you. I lived through the era of the Grace Commission——

General BEALE. Yes, sir.

Mr. SISISKY [continuing]. When I defended the commissary system as part of compensation.

General BEALE. Yes, sir.

Mr. SISISKY. That is how you answer the appropriated funds. Now, you should be efficient. I look at, "We believe that PBO status holds the potential to provide DECA greater flexibility, while holding the agency accountable for its performance." Well, we do that already.

You know, your problem in your last 3½ years has been the downturn in—what did we lose? A million people?

General BEALE. No, sir.

Mr. SISISKY. Active duty?

General BEALE. No, sir.

Mr. SISISKY. I am talking about active-duty people.

General BEALE. No, sir.

Mr. SISISKY. We lost about a million people.

General BEALE. No, sir, it is not that.

Mr. PANG. About a half-million active duty.

General BEALE. But that has not been our problem, because, you see, we are not a sales-based organization like the exchanges are. We do not have to sell at any particular level. We do not have to deliver dividends. It does not matter how many groceries we sell.

We sell groceries at cost to where service members are located. And so, in that respect, we are not like a regular business.

Mr. SISISKY. Well, I do not understand how the PBO—you know, except hiring a civilian manager. You know what executives of major food stores are—

General BEALE. I will give you another example, on acquisition costs. Right now, to go out and buy things like paper bags, I have to go competitively. Now, that means, if there are 15 suppliers out there who want to sell paper bags to the Department of Defense, I have to entertain the bids of every one of those 15 suppliers.

What the Office of Federal Procurement Policy is suggesting, and some of the things that we have latched onto and embraced philosophically, if I can simply do a quick review that says on vendor performance, based on their ability to meet delivery schedules, if I could reduce 15 suppliers to the best 3 in our judgment and compete with the 3, I would save all of the money that we have to spend to evaluate 12 other perspective vendors.

Mr. SISISKY. I do not disagree with you. But the real truth of the matter happened in a hearing last week. I do not know if any of you were there. They were talking about the great thing in privatization of the Department of Energy—cleaning up the environmental thing. And, I listened, and I asked one question: The largest contract to date on environmental cleanup has been the Savannah River. How many bids did you have? Of course, he turned red in the face: One. Now, everybody else had bid subcontractors.

And that is what scares me, to be very honest with you. That is why we have some controls. I do not disagree we could narrow it down, because performance is very important. I mean, people can price anything, and then not perform. So I do not disagree with you. I am just worried about commodities. And you assured me, but you are not going to be there after June, so I do worry about that.

General BEALE. Sir, this gentleman will be there after June, and so will the six other members of the resale board.

Mr. SISISKY. Well, I also worry about hiring a chief executive. If you look at salaries of CEO's of major chain stores and major other things, you are talking about a lot of money, way beyond the Government pay. Now, that does not mean that you cannot find a good person. It just makes it more difficult to find the right person in doing it, and that is the pay structure.

But, again, I would ask unanimous-consent to submit the questions, and just tell you what my fears are. I will be looking at it, and I am sure members of the committee will do the same thing, just so we will not lull ourselves into believing that privatization is the ultimate answer.

Thank you, Mr. Chairman.

Mr. MCHUGH. Yes. Thank you. Without objection on the gentleman's unanimous consent request on questions.

Mr. MCHUGH. I would also say to both General Beale and Secretary Pang, and to the members of the two panels to follow that it is, in all likelihood, possible that we, or perhaps members who are not here, will submit written questions to you as followups.

We would ask that you do your best to try to respond to those in 2 weeks, because of the timeframe. That is very important. We understand you are very busy, as well, but that would be most helpful to us. So we will appreciate that.

Mr. PICKETT, do you have some questions?

Mr. PICKETT. Thank you, Mr. Chairman. I want to welcome our witnesses today, and also Mr. Rossetti on the team that is going to be working with us over there in the Pentagon.

I was listening carefully to your remarks about competitive procurement. And that was one of the questions that I was going to ask, about the performance-based organization, as to whether that would allow you to avoid competitive procurement of both what it takes to operate your business, as well as the products that you resell.

General BEALE. As far as the resales, sir, the products that we sell, that competition takes place at the shelf. We do not compete space. We have no private labels. So the competition actually takes place at the shelf.

General Mills, Post, Kelloggs introduce their cereals. They are placed in the commissaries depending on space. But the consumer decides at the shelf on the brand name.

Now, the level of competition that ultimately we would have under a PBO guideline would be that which the committee and the Department, and probably the Office of Federal Procurement Policy, would agree upon.

It is my understanding, for example, that the FAA, which is one of the other performance-based candidates, has submitted a template request for a waiver to the Federal acquisition regulations. Now, they are going to probably spend the next 2 to 3 years writing their own, which I suspect will still be subject to committee oversight in their respective area.

So, I would simply say in response to your question that I believe the level of competition that would continue under a PBO is whatever level the committee and the Department and the Office of Federal Procurement Policy are comfortable with.

Mr. PICKETT. So unless changed, you would continue under the present policies? Is that the answer?

General BEALE. Yes, sir.

Mr. PICKETT. OK. I think recently there has been a GAO decision involving what constitutes a name-brand product and whether or not competition is going to exist in the procurement of those kinds of products. How do you intend to handle that issue?

General BEALE. Well, the GAO basically said that we were free to entertain the offering of the United Service Organization and its business partners for the Always Home brand.

In speaking with the Secretary, which I did within the last two weeks after the decision was rendered, the Department's position is to do exactly what we intended to do before we asked the GAO

to make a ruling on whether or not the Always Home concept was outside the intent of the brand-name laws.

The USO and its business partners will be given every opportunity to present their product, just like any other vendor who has a product to sell to the commissaries, with the stipulation that they have to start at the bottom and work their way up. And, basically, they understand the ground rules, as does everybody. You have to fight for competition and space on the shelf based on the price offerings that you lay on the table.

They will receive no special treatment. They will have to present their products just like any other prospective vendor.

Mr. PICKETT. How do you make the initial decision about space on the shelf, as to who gets it and who does not? And how will you ensure that you have a range of products for your customers?

General BEALE. Well, it is interesting you should mention that, because one of the things that I pick up every place I go—whether it is retirees, or whether it is active duty—they all ask me why DECA does not have a value brand or a house brand.

Now, house brands or controlled labels in the outside market capture 26 percent of the business. We do not have a controlled label. USO Always Home was not intended to be a controlled label. That was their original proposal to the Department, as you recall. The Secretary rejected that proposal and said if they are going to place their products on the shelf they have to compete like everybody else.

So, you have to understand that the dynamics of the civilian marketplace keep the issue alive, as to why DECA does not have a private label.

Now, quite frankly, the reason we have not had a private label in the past, and have no intention of going to a private label in the future, is because by and large the military community has always expressed an overwhelming preference for national brands.

No. 2, as long as the national brands are able to provide price offerings that are in the competitive ranges of what is offered downtown as a controlled label, there is no need to have a controlled label in the commissary.

The interesting dynamics of our system, and one of the reasons, we are looking at 29-percent savings, is when industry brand-name folks realized that a price alternative might be introduced into the commissaries, to their credit, they arose to the occasion and have given us even more competitive pricing than we had previously, which was at the 23-percent level.

So, bottom line, if Always Home is to secure any space on the shelf, they are going to have to demonstrate that their price offerings are considerably better than anything else we currently have, which are the same ground rules that apply to anybody else who wants to vie for space.

Mr. PICKETT. One other question, Mr. Chairman.

Mr. MCHUGH. Absolutely.

Mr. PICKETT. The just-in-time delivery system that DECA uses primarily, where you move products right onto the shelves and you do not store them in the back room or in a warehouse someplace—how much of your aggregate savings, that you mentioned a moment ago, since 1992 have arisen as a result of that move?

General BEALE. Sir, off the top of my head, I cannot give you an exact answer. I would like to submit it for the record, but I can tell you, generally, a considerable amount, because we no longer have the expense of appropriated fund employees running warehousing and distribution operations. We have basically transferred that function to the civilian sector, at a tremendous savings to the taxpayer and very little incremental—almost transparent—costs to the patron.

[The following information was submitted for the record:]

Mr. PICKETT. The just-in-time delivery system that DECA uses primarily, where you move products right onto the shelves and you do not store them in the back room or in a warehouse someplace—how much of your aggregate savings, that you mentioned a moment ago, since 1992 have risen as a result of the move?

General BEALE. DECA's utilization of frequent delivery (just-in-time delivery) resulted in a one-time inventory savings of approximately \$100M, and annual savings of \$15.8M from labor and \$2.3 from nonlabor costs which have already been reflected in the commissary budget.

Mr. PICKETT. Do you use instances where you allow vendors to put products or have space in the commissaries where they put their own products in and bill you, or do you pay for them as the products are sold?

General BEALE. Well, we have a considerable amount of vendor stocking that we have used for years. So, quite often, vendors will pre-position stock in the commissaries, just like we get the frequent deliveries in overnight. A lot of that is being brought in to provide the capability for the vendor stockers or DECA stockers to stock the shelves.

Now, not every store is on a 6- or 7-day-a-week delivery cycle. Some of our smaller stores are on two- and three- or even once-a-week delivery cycles. So, where you have that particular phenomenon, you are going to have some stock in the back room.

Mr. PICKETT. Does the vendor stocking save you money?

General BEALE. Yes, sir, because if it were not for the vendor that was stocking, we would end up having to pay appropriated fund employees to stock the shelves.

Mr. PICKETT. OK. Thank you. Thank you very much, gentlemen. Thank you very much, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

Mr. SISISKY. Mr. Chairman.

Mr. MCHUGH. Mr. Sisisky.

Mr. SISISKY. In my other career, one of the commodities that did this—because I sold an awful lot of soft drinks at the commissary service before I came here.

General BEALE. Yes, sir.

Mr. SISISKY. And that store-door delivery—

General BEALE. That is direct-store delivery, yes, sir.

Mr. SISISKY. I am trying to get the exchanges to believe that that is the best thing, too.

General BEALE. Well, we have found it to be very efficient, yes, sir.

Mr. MCHUGH. I thank the gentleman for his comments. I would want the record to reflect that both the gentleman from Virginia, Mr. Bateman, and the gentleman from Guam, Mr. Underwood, were very gracious in being here in person, but did have to go off

to other meetings. But we appreciate their being here to help us through the first part of the hearing.

And with that, I would yield to Mr. Chambliss.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

Norm, did you sell peanuts with those coca-colas, too?

Mr. SISISKY. Both.

Mr. CHAMBLISS. If you did not, you should have.

Mr. SISISKY. Both.

Mr. CHAMBLISS. Let me echo the sentiments of my colleagues, General Beale, and thank you for the service that you have given us, and wish you the best in your new life.

General BEALE. Thank you, sir.

Mr. CHAMBLISS. And, Mr. Secretary, I compliment you on your selection of my friend, Mr. Rossetti, and we look forward to continuing to work with him as a member of your staff on the improvement of this program.

I also want to express the same concern that Mr. Sisisky has about the attitude of wholesale privatization of our military services, including the MWR aspect. I do not think there is any member of this Congress that is a bigger fan of the privatization concept than I am. And there are a lot of areas where it can be a tremendous advantage to us, from a cost-saving standpoint as well as an efficiency standpoint.

But there are some areas, particularly involving the military, that are simply unique to our way of life and our way of doing business. And MWR, I think, is a good example of how we can provide compensation to our personnel, to continue to entice the very finest young men and women in the armed services. And I think we need to be extremely cautious.

Now, having said that, I do think there are areas that merit looking at. One area that I have had some recent experience with is, as you commented in your written statement, Mr. Secretary, at Fort Benning with the movie theater there. That appears to be an area where we can have the private sector come in, instead of us having to have that outlay of capital, and do that for us. And our folks receive a tremendous benefit from it.

I also had an opportunity to observe the realty pilot project that you have at Fort Gordon which I think is an exciting concept. It is not truly privatization, but I wonder if you could assess for me the success of those programs, and if there is any benefit erosion to the serviceman. And, do we have any additional projects like that on the table?

Mr. PANG. Mr. Chambliss, with regard to the two programs that you cited, those are working well for us. As you know, we have a privatization report that will be coming out. This is the big privatization report that will be coming out from the Defense Science Board, and it will cite many areas that may be areas that we could achieve efficiencies in if we privatize.

Some of them are what I would call sacred-cow types of projects, and are going to create a considerable amount of consternation here when you read it. I am certain of that. Because even inside the Pentagon, when you look through this whole list, some people have raised some very genuine and serious concerns. But that re-

port will be a menu of things that we really need to explore very carefully.

You are right. I mean, there are some things the military does that are core competencies. We should not privatize our core competencies.

There is this middle ground that some people perceive as core competencies and others do not. And then there are some areas that are definitely things that can be done more efficiently in the private sector.

So I think, that will kind of lay out the whole range of privatization potentials for the Defense Department, and then we will have to make choices. And, obviously, there will be oversight.

With regard to the PBO, I just want to underscore that we will work very closely with this Panel. We are not going to launch forward on this thing without keeping you well informed. And in the areas where we disagree, I know the rule—we propose, and you dispose.

The other thing I would like to say with regard to the PBO concept is that I think Mr. Sisisky probably hit the nail on the head. We chose the PBO notion because it contained a lot of the things, like authorities or flexibilities, that we would like to have. But there is nothing magic about a PBO.

You can say, "OK, forget about a PBO and go about this piece by piece," and, for example, seek efficiencies in hiring, seek efficiencies in the way we procure computer equipment.

General Beale is right. We have the MAISRC process he described to you, which is a process aimed at procuring very complicated computer equipment. And, it makes sense to go through a long series of steps, but it does not make sense to put something you can just buy off the shelf and use immediately, and spend \$16 million to do something like that.

We are serious about seeking privatization, because we believe that by outsourcing we can operate more efficiently. I think there are many examples, and I will provide those for the record, of recent initiatives we have taken in morale, welfare, and recreation programs, and in the exchange programs, and in the commissary programs.

[The following information was submitted for the record:]

Mr. PANG. We are serious about seeking privatization, because we believe that by outsourcing we can operate more efficiently. I think there are many examples, and I will provide those for the record, of recent initiatives we have taken in morale, welfare, and recreation programs, and in the exchange programs, and in the commissary programs.

Mr. Pang's response. The exchange services, MWR programs, and DECA use commercially available expertise where it complements the military mission, is cost effective, practical, and adds value to the operation of each organization. Some of the more significant examples of outsourcing used by the resale and MWR programs are:

EXCHANGES

Personal Telecommunications, Brand Name Fast Foods, Payroll Processing, Credit Card Processing (Billing), Third Party Construction (PPV's).

MWR

Movie Theaters, Child Development Centers, Lifeguard Services, Lodging Facilities, Fitness Centers, Food & Beverage Programs.

Janitorial Services, Shelf Stocking, In-Store Bakery Operations, In-Store Fresh Seafood & Deli, Partial Meat Preparation, Repair and Maintenance of In-Store Equipment.

Mr. CHAMBLISS. General, I was interested in your example about buying the paper bags. After 15 months up here, I am still in the learning process, and I am totally amazed at some of the things I hear. Trying to operate what is a huge business in the way that you described you have to do it is very perplexing to me, and I do not understand that.

It may be that this is the only alternative way to go, but I hope maybe we are exploring some other options there to allow you the flexibility of achieving that end result of being able to make a good business decision without having to go through 15 alternative bids. And there may not be any other way to do it, but I hope maybe there are some other options out there.

General BEALE. Yes, sir. I believe there are, and I think we have the ability to lay out for the panel a fairly comprehensive menu of alternatives that would allow you to pick whatever level you are comfortable with, in terms of the amount of competition, for example, that would take place for the obligation of taxpayers' money.

I believe, in my heart, there has to be some, but how much is enough, particularly for a grocery chain, as opposed to a situation where you are buying tanks or aircraft or destroyers?

Mr. CHAMBLISS. Mr. Secretary, let me move to a different area. I noticed on page 15 of your printed remarks you speak about competition with national discounters outside the gate. I recognize the difficulties that this has posed to the exchange system, and I understand that serious consideration is being given to changing many of the merchandise sale restrictions presently placed on exchanges so that you can remain profitable and be competitive.

In light of this very competitive environment that these discounters have created, how do you propose that we achieve the goals of: First, preserving the benefit; second, keeping the exchanges competitive; and third, avoiding driving small businesses out of the market?

Mr. PANG. That is a difficult question to answer, Mr. Chambliss, quite frankly, because we are going to have to try to achieve a reasonable balance. I think, especially with the exchanges, as business operations they would like to be unfettered, have no controls on the merchandise that they would sell, because they are in a competitive business.

On the other hand, we are sensitive to the reasons for some of the restrictions, because we do not want to drive small business out of business. That is not our business.

Mr. CHAMBLISS. Sure.

Mr. PANG. So, there is a delicate balance to be reached there. I have a proposal that suggests that we should lift all restrictions off the exchange system with regard to merchandise that they can sell.

I am reviewing that very carefully, being very sensitive to the fact that you, on this panel—and, indeed, other Members of Congress—have concerns about how far we go. So we will proceed very prudently and cautiously in this area.

In today's environment where the exchanges have a smaller customer base, I think there is a struggle to try to be more competitive, to continue to return larger dividends to MWR. And, I think that is important.

I think it is also important that our people can buy TV sets in the exchanges that are larger than 27 inches, for example. And, that is one of the restrictions. These are all areas that we are examining now and have not made a final decision on.

Mr. CHAMBLISS. I should know the answer to this, but how many commissaries are there? How many are in our system?

General BEALE. Sir, at the beginning of the present fiscal year, 312. That is down from 411, when DECA was formed. And we are on a glide path to about 296, after all of the dust settles from BRAC 89, 91, 93, and 95 closures.

Mr. CHAMBLISS. That is down from 400 and——

General BEALE. About 411, sir.

Mr. CHAMBLISS. How about the exchanges?

General BEALE. Sir, I have no idea.

Mr. CHAMBLISS. OK. That is all I had, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

And to you two, again, we express the panel's deep appreciation.

Let me just sum up by saying again that this panel is very cognizant of the need to try to deliver this benefit in the most effective and efficient manner possible. And we have watched with great interest both the activities that you two gentlemen and others on the panels today have been involved with, and the activities of others in Congress—and I repeat again, the Budget Committee, the Government Oversight Committee, and others.

We are very, very willing to cooperate in those kinds of efforts. But I think it is fair to say, as well, that as much as we are concerned about the cost of delivery, we are most concerned about the delivery and the maintenance of that benefit.

I hope I am not speaking out of line in terms of the other members of the panel, but I will say, from my perspective—and I think I speak for all of the members—we will not concede that ground easily. It is far too important, and these are far too difficult times, to turn our backs on those men and women in uniform who serve all of us so well.

So with that, again, thank you, and General Beale, our best to you again, sir.

Mr. PANG. Thank you.

General BEALE. Thank you, sir.

Mr. MCHUGH. We will now call forward the second panel.

If we could try to take our seats as quickly as we could the second panel is comprised of Maj. Gen. Doug Bunker, Commander of the Army and Air Force Exchange Service, AAFES; Capt. Bruce Bennett, Acting Commander of NEXCOM, the Navy Exchange Service Command; and Brig. Gen. James Joy, U.S. Marine Corps, retired, who is the Director of MWR support activity for the U.S. Marine Corps.

Gentlemen, we welcome you here today, and we appreciate your being with us.

I would say to both the panel members seated before us and the panel members seated here that we do have a drop-dead time of

1 o'clock. There is a full committee hearing at that time. I have always been very hesitant to go to the 5-minute rule. I would prefer not to do that here today, but I would urge both the presenters and those of us who will ask questions, myself included, to try to keep that 1 p.m. deadline in mind. And, we do have another full panel to make a presentation.

So with that, gentlemen, I would turn the attention of the panel and everyone in the room to General Bunker, and ask that you, General and all the members of the panel, submit your written testimony in its entirety for the record.

Without objection, we will have that done. And, in the interest of time, if you could give us an oral summation of your comments we would be deeply appreciative.

STATEMENT OF MAJ. GEN. ALLEN D. BUNKER, USAF COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE [AAFES]

General BUNKER. Thank you, sir. I will do that. And I appreciate the opportunity to appear before you on behalf of the Army and Air Force Exchange Service and all the people who we serve.

Our AAFES mission and our AAFES vision is to be our customers' first choice, and we want to do this by providing goods and services at low prices, while providing maximum dividends to our MWR stockholders. We want to provide, serve, and produce the dividend. And our many outstanding associates within AAFES have been producing.

We have, I think, bottomed out on force downsizing, reductions. As was mentioned before, we have lost over a half-million people over the past 5 or 6 years. These are people who buy pizzas, Nike running shoes, and Levis, and stop at our shopettes to pick up drinks, diapers, and milk before they go home. So, obviously, our sales are down; our dividends are down.

But we saw a turnaround at the end of fiscal year 1995. At least all the indications are that sales have bottomed out and things are on the upturn. Even though 1995 started out rather dismally for all of us—as it did for all retail—unlike the rest of retail, we had a great fourth quarter and overall, we had a strong second half.

Ninety-five brought a weaker dollar overseas. Of course, this aggravated our operating profits there because of increased costs for personnel and increased costs for local procured supplies. Overall, 1995 earnings of \$228 million fell short of 1994, which was \$269 million.

However, after mid-year our belt-tightening measures, our streamlining, began to take hold. Productivity was up 6 percent over the year before, and the earnings trend was turned around with the second half of 1995 posting a 57-percent improvement against the second half of 1994. And looking at the first month of the fiscal year 1996, this turnaround trend seems to be continuing, with earnings well ahead of last year in the first half of 1996.

Soldiers and airmen receive the largest part of AAFES earnings in the form of support of dividends to morale, welfare, and recreation programs. On our total earnings, dividends for 1995 were \$162 million. This represents 71 percent of our total earnings. The remaining earnings finance AAFES capital expenditures ranging

from new and refurbished stores, shopettes, filling stations, to our new information systems, trucks, trailers, forklifts, and our state-of-the-art distribution centers.

To help improve earnings, AAFES has also reduced in size and streamlined. We have downscoped our operating regions. We have moved European accounting support to the headquarters in Dallas. We will be moving all regions in that direction. We have restructured our overseas regions, and we have implemented major work force retailment in the headquarters. Our headquarters restructuring efforts will continue in 1996 with an additional 10 percent aimed to be off the books by July 1996.

In 1997, we will relocate our fashion distribution center from Dallas to the Dan Daniel Distribution Center in Newport News, VA. This move will produce greater savings and better locate us logistically to the source and to the customers.

Through continued efforts such as these, AAFES will be well positioned to provide the service our customers expect, and generate the earnings and dividends which my friends in MWR are very closely monitoring on a daily basis, I can assure you.

Mr. Chairman, we thank you and the panel for the opportunity to tell you about AAFES and the accomplishments of our many dedicated employees who are out there everywhere in the world as we speak, delivering service, carrying boxes, and stocking shelves. We are proud of them. We think we have a great future, and we are proud of what we are doing.

I will be happy to answer your questions when the time comes.

[The prepared statement of General Bunger follows:]

READING VERSION

STATEMENT BY

MAJOR GENERAL ALLEN D. BUNGER, USAF

COMMANDER, ARMY AND AIR FORCE EXCHANGE SERVICE

BEFORE THE

MORALE, WELFARE AND RECREATION PANEL

COMMITTEE ON NATIONAL SECURITY

UNITED STATES HOUSE OF REPRESENTATIVES

SECOND SESSION, 104TH CONGRESS

ON

IMPROVED EFFICIENCIES IN THE OPERATION OF

EXCHANGES, COMMISSARIES AND OTHER MWR ACTIVITIES

27 MARCH 1996

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COMMITTEE

Thank you Mr. Chairman, members of the Panel :

I appreciate this opportunity to appear before you as AAFES Commander. While I have submitted a statement for the record I would like to make a few comments. First, I want to take this opportunity to personally extend the appreciation of the Soldiers and Airmen we serve for the strong support you have provided to their exchanges in these extraordinary times of force reduction and drawdown.

Today, Quality of Life programs are more important than ever to retention and readiness in our all volunteer force. AAFES is working very hard to be our customers' first choice by providing goods and services at low prices while we provide the maximum dividends to our "stockholders."

In 1995 force reductions and base closures continued to inhibit AAFES' sales and earnings. Early in the year earnings were off as our efforts to downsize AAFES somewhat lagged the declining sales trend. It was also a difficult year for the retail industry. Even Wal-Mart stumbled when 99 straight quarters with improved earnings could not be continued.

In CONUS, AAFES results were in line with the industry. Overseas, a weaker dollar aggravated operating costs in Europe where earnings contributions were already drastically reduced from pre-drawdown levels. Overall 1995 earnings of \$228 million did fall short of 1994's \$269 million. However, after mid-year, belt tightening measures took hold. Productivity was up 6 percent over the year before and the earnings trend was turned around with the second half of 1995 posting a 57% improvement against 1994. Looking at the first month of our fiscal year 1996 the "turn-around" trend is continuing with earnings well ahead of last year.

The Army and Air Force use a large part of AAFES' earnings to support Morale, Welfare, and Recreation programs. Dividends for 1995 totaled \$162.4 million or seventy one percent of earnings. The remaining earnings finance AAFES' capital expenditures ranging from new and refurbished selling facilities to information systems; from trucks and trailers to state of the art distribution centers - all essential requirements for a viable retail business.

Just as the military services have reduced in size while gaining efficiency over the first half of this decade AAFES has been proactive also. In prior years we virtually eliminated an entire

management level and significantly down-scoped our operating regions as they were relocated to Dallas.

These efforts continued into 1995 with the relocation of European accounting support to the headquarters in Dallas; the restructuring of overseas regions; and, a major workforce curtailment in the headquarters.

Our restructuring efforts are continuing with an additional 10% reduction in headquarters staffing targeted by this July. In 1997 we will relocate our Fashion Distribution Center from Dallas to the Dan Daniel Distribution Center in Newport News Va. This move will produce greater savings and better locate us, logistically, for this merchandise. Through continued efforts such as these, I am confident AAFES will be well positioned to provide the service our customers expect and generate the earnings and dividends vital to our service members Quality of Life benefits.

Mr. Chairman, thank you and the Panel for this opportunity to tell you about AAFES and our employees dedicated efforts to support the service members and their families. We look forward to your continued support. I will be happy to answer your questions.

Mr. MCHUGH. Thank you, General Bunger. And we are proud of them, as well. I appreciate your comments.

Captain Bennett, Acting Commander of NEXCOM, welcome, sir.

STATEMENT OF CAPT. BRUCE R. BENNETT, SC, USN COMMANDER, NAVY EXCHANGE SERVICE COMMAND [NEXCOM]

Captain BENNETT. Thank you, Mr. Chairman and members of the panel.

It is indeed a pleasure for me to be here today to bring you up to date on our Navy exchange operations. I am also pleased to announce that this is an exciting year for us: 1996 marks our 50th anniversary.

It has been a year for us to not only look back on what we have accomplished in the past 50 years, but to look ahead to the next 50 years.

Since our establishment in 1946, we have not lost sight of our mission: to provide our sailors with quality goods and service at a savings, and to support MWR quality of life programs. Our commitment to our sailors and their families remains strong.

First and foremost, I want to reiterate to the members of the panel that the Navy Exchange Program is financially healthy, even during this period of base closure and force reduction. Over the past 4 years, we have seen about a 7-percent decrease in our sales, compared to a 24-percent decrease in force reductions. Our profits are down, but remain strong at over \$60 million in fiscal year 1995.

This is a good-news story, and I think proof of our vigorous efforts to control expenses and achieve efficiencies. In fact, when you look at our sales and profits on a per-capita basis, we have actually increased over the last 3 years.

The financial health of the exchange system is further indicated by our excellent debt facilities from commercial banks. We recently obtained an average borrowing rate of 5.4 percent, compared to the prime rate of 8¼ percent. I think this is proof from our commercial bankers that our system is financially sound.

Our current financial ratios are excellent when we benchmark them against our civilian counterparts. And I am pleased to announce this morning that we just received our Standard & Poors rating, A-one-plus, the highest rating that they give out for a business such as ours.

I am confident in reporting to you that the Navy exchange system is solid as I speak, and that we are very optimistic about our future.

During the past year, we have been busy looking ahead and developing ways to make our business even more efficient. Our Navy exchange team is strong. We have successfully looked to the experts from the civilian sector, employing individuals from industry who can provide the direction and steer our exchange systems into the future.

One of these individuals is our chief financial officer, Mr. Bob Clark, who is with me today and brings over 25 years of experience in retail business from the private sector. Through the efforts of all these individuals, we are employing industry-proven best practices to ensure that we continue to make the exchange system as efficient as possible.

Our biggest effort on our plate right now is our ongoing modernization program. With the support of this panel, we are modernizing our information systems with commercial off-the-shelf software packages that have proven successful in the civilian sector.

But modernization is more than just new ADP systems. We recognize that. To simply update our systems with state-of-the-art equipment is not the only answer. We have developed what we call business process reengineering teams, supported by consultants from the private sector, to ensure that we are, in fact, adapting the retail business best practices in the Navy exchange systems and taking full advantage of these new ADP systems that we are in the process of deploying. These efforts, in combination, will pay great dividends to us in the future, with annual savings expected to exceed \$50 million.

Another key to our success in the future is through continued cooperative efforts with our exchange services, as well as partnerships with our MWR counterparts, civilian industry, and the Navy community.

As we reported to this committee in the past, OSD and the exchange MWR team members have identified over 40 cooperative efforts which are now being implemented where it makes good business sense to do so.

For example, 15 Marine Corps exchanges worldwide draw merchandise from our distribution centers. We also provide van-stuffing services to some Marine Corps exchanges overseas. We are using the AAFES' fast-food concepts in many of our locations. The joint services private label program has been a tremendous success. And in December we awarded a license agreement to AT&T to provide personal telecommunications for our sailors, marines, and coast guards. This was a cooperative effort between the Navy exchange system, the Marine Corps, and the Coast Guard.

This initiative was able to provide a much needed service to our customers, without the reliance on appropriated funds to provide the support for wiring and other infrastructure costs associated with telecommunications support.

In closing, I would like to emphasize that our system is not broken. It is focused on our customers: our sailors and their families. As you know, our sailors spend many months away from their families at sea. In any given period, 59 to 60 percent of our ships are at sea, and over half of those ships are on extended deployments.

It is a tough life. It is hard work. The pay is not great. But the job is important, and they recognize that. We take care of our sailors when they are at sea through our ship store program, and we take care of the families they leave behind.

We also have an obligation to our retirees, reservists, and their families, as well. I ask that this panel does not lose focus on them. They are committed and view our programs as a valuable part of their benefit package, as this panel has so often indicated, and a part of their Navy family. We will continue to meet our commitment to them. They deserve the best, and we will deliver that.

What we need most during this time of so many changes is stability. We have an awful lot on our plate, and we need to execute those initiatives so that we can assure that we continue to provide the benefit that we are committed to provide to our customers.

I want to thank the chairman and the panel for the opportunity to be here today, and I look forward to answering any questions you might have about the Navy exchange system.

[The prepared statement of Captain Bennett follows:]

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UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF
CAPTAIN BRUCE R. BENNETT, SC, USN
COMMANDER, NAVY EXCHANGE SERVICE COMMAND
BEFORE THE MORALE, WELFARE AND RECREATION PANEL
OF THE
COMMITTEE ON NATIONAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES
ON
IMPROVED EFFICIENCIES IN OPERATION OF
EXCHANGES, COMMISSARIES, AND OTHER
MWR ACTIVITIES
MARCH 27, 1996

NOT FOR PUBLICATION UNTIL RELEASED BY
THE COMMITTEE ON NATIONAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES

Captain
Bruce R. Bennett
Supply Corps,
United States Navy

Captain Bruce R. Bennett was born in LaCrosse, Wisconsin. He received his Bachelor of Science Degree in Mathematics from the University of Wisconsin and his Masters Degree in Operations Analysis from the Naval Post Graduate School in Monterey, California.

Captain Bennett was commissioned an Ensign in the Supply Corps following Officer Candidate School in April 1971. His first active duty assignment was Supply Officer, Fleet Air Support Unit, Da Nang, Vietnam. Sea duty assignments include Supply Officer, USS GEORGE WASHINGTON (SSBN-598), Assistant Supply Officer, USS NIMITZ (CVN-68) and Supply Officer, USS FORRESTAL (CV-59).

As a graduate of the Navy's Acquisition Intern Program, Captain Bennett's duty assignments included: Procurement Officer, Naval Supply Center, Puget Sound and Director of Contracts for the Navy Procurement Office, Sikorsky Aircraft. Captain Bennett's other duty assignments have included: Director of ADP Operations, Defense Depot, Ogden, Utah, Program Manager for DOD Electronic Commerce at the Defense Logistics Agency and Director, Corporate Management Group and Chief of Staff for the Navy Exchange Service Command. Most recently, Captain Bennett has served as the Commanding Officer of the Navy Exchange Service Center, Europe in Naples, Italy. He currently serves as the Vice Commander for the Navy Exchange Service Command in Virginia Beach, Virginia.

Captain Bennett's decorations include: The Defense Superior Service Medal, Defense Meritorious Service Medal, Meritorious Service Medal (w/ Gold Star), Navy Commendation Medal, Navy Achievement Medal (Combat V), Combat Action Ribbon, Defense Unit Commendation, Meritorious Unit Commendation and Battle "E". In addition, Captain Bennett is authorized to wear the Submarine and Aviation Supply Warfare Devices.

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE PANEL, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO PROVIDE AN UPDATE ON OUR NAVY EXCHANGE PROGRAM. THIS YEAR IS AN EXCITING YEAR FOR US, AS IT MARKS THE FIFTIETH ANNIVERSARY OF THE NAVY EXCHANGE SYSTEM. THROUGHOUT OUR FIRST FIFTY YEARS, OUR PROGRAMS HAVE BEEN A MAJOR CONTRIBUTOR TO QUALITY OF LIFE AND ARE VITAL TO OUR ABILITY TO SUPPORT A READY AND ABLE FORCE.

QUALITY OF LIFE FOR SAILORS AND THEIR FAMILIES IS THE PRINCIPAL FOCUS OF OUR BUSINESS. TODAY, MORE THAN EVER, OUR VOLUNTARY MILITARY SERVICES MUST HAVE THE CAPABILITY TO ATTRACT, RETAIN, AND MOTIVATE HIGHLY QUALIFIED PERSONNEL. THE NAVY EXCHANGE PROGRAM HAS BEEN, AND CONTINUES TO BE, A VALUABLE PART OF THE NON-PAY COMPENSATION PACKAGE AVAILABLE TO OUR MILITARY FAMILIES. OUR MISSION STATEMENT IS SIMPLY 18 WORDS, "TO PROVIDE OUR CUSTOMERS QUALITY GOODS AND SERVICES AT A SAVINGS, AND TO SUPPORT QUALITY OF LIFE PROGRAMS." THESE ARE NOT MERELY WORDS, BUT THE HEART AND SOUL OF OUR BUSINESS AND OUR COMMITMENT TO OUR SAILORS AND THEIR FAMILIES

ADMIRAL MIKE BOORDA, CHIEF OF NAVAL OPERATIONS, RECENTLY REMARKED, "THE EXCHANGE HAS CHANGED IN THE WAY THE NAVY HAS CHANGED AND IN THE WAY THE MILITARY HAS CHANGED." WE HAVE SEEN A

GREAT DEAL OF CHANGE OVER THE FIFTY YEARS AND AS A SYSTEM, WE HAVE BEEN SUCCESSFUL IN MEETING THE CHALLENGE OF CHANGE BY STAYING VITAL, RELEVANT TO OUR PEOPLE, AND UP TO DATE. I AM PLEASED TO REPORT THAT TODAY THE NAVY EXCHANGE PROGRAM IS FINANCIALLY HEALTHY EVEN DURING THIS PERIOD OF BASE CLOSURES AND FORCE REDUCTIONS.

THE NAVY EXCHANGE SYSTEM IS MULTI-FACETED. OUR SHIP STORE PROGRAM IS A VALUABLE BENEFIT TO OUR SAILORS, BOTH AT SEA AND IN PORT. IN ANY GIVEN PERIOD, 59% OF OUR SHIPS ARE AT SEA AND 32% ARE ON EXTENDED DEPLOYMENT. DURING FY95, THE SHIP STORE PROGRAM RETURNED \$18.2 MILLION TO SUPPORT RECREATIONAL AND LEISURE NEEDS OF OUR SAILORS AFLOAT. OUR COMMITMENT TO THESE SAILORS IS TWO-FOLD, TO TAKE CARE OF THEM AT SEA AND TAKE CARE OF THE FAMILIES THEY MUST LEAVE BEHIND. THE NAVY LODGE PROGRAM PROVIDES LODGING FOR OUR MILITARY FAMILIES AND HELPS EASE THE TRANSITION ASSOCIATED WITH PERMANENT CHANGE OF STATION AND TEMPORARY DUTY MOVES. THE LODGE PROGRAM IS COMPLETELY SELF-SUFFICIENT AND IS IN ITS' FOURTH YEAR OF AN ONGOING FIVE YEAR RENOVATION PROGRAM. OUR NAVY UNIFORM PROGRAM CONTINUES TO PROVIDE A SERVICE TO NOT ONLY NAVY PERSONNEL, BUT ALSO PROVIDES UNIFORM SUPPORT TO THE OTHER MILITARY SERVICES AT CERTAIN LOCATIONS. ADDITIONALLY, WE HAVE A UNIFORM MAIL ORDER 1-800 PROGRAM THAT SUPPORTS BOTH THE NAVY AND MARINE CORPS.

DURING FY95, THE FINANCIAL HEALTH OF OUR NAVY EXCHANGE SYSTEM HAS REMAINED STRONG AS WE HAVE BEEN ABLE TO ADAPT TO THE CHANGES IN THE RETAIL WORLD AS WELL AS THE CHANGING MILITARY ENVIRONMENT. DESPITE A 24.1% DECREASE IN MILITARY PERSONNEL OVER THE PAST 4 YEARS, WE HAVE SEEN ONLY A 7.4% DECREASE IN OUR TOTAL SALES. BUT MORE IMPORTANTLY, OUR ACTIVE DUTY SALES PER CAPITA HAS ACTUALLY INCREASED BY 14.9%. OUR PROFITS, OVER \$60 MILLION IN FY95, STILL REMAIN STRONG AS A RESULT OF OUR VIGOROUS EFFORTS TO EXPAND OUR BUSINESSES, ACHIEVE EFFICIENCIES, CONTROL EXPENSES, AND THROUGH COOPERATIVE EFFORTS WITH DECA AND THE OTHER EXCHANGE SERVICES. THE SUPERLATIVE FINANCIAL HEALTH OF THE NAVY EXCHANGE SYSTEM IS INDICATED BY OUR EXCELLENT DEBT FACILITIES FROM COMMERCIAL BANKS, WHO PROVIDE US AN AVERAGE CURRENT BORROWING RATE OF 5.4% COMPARED TO THE PRIME RATE OF 8.25% AND OUR TOTAL CREDIT LINES OF \$325 MILLION, A VERY STRONG EQUITY (\$400 MILLION) AND CURRENT ASSET (\$550 MILLION) POSITION AND EXCELLENT FINANCIAL RATIOS. CONSISTENTLY FAVORABLE OPINIONS FROM NATIONAL ACCOUNTING FIRMS ATTEST TO THE SOLID FINANCIAL CONDITION OF THE NAVY EXCHANGE SYSTEM.

OUR COMMITMENT TO MWR HAS REMAINED FIRM. OVER THE PAST 50 YEARS, THE NAVY EXCHANGE SYSTEM HAS PROVIDED ALMOST \$2 BILLION TO SUPPORT THESE POPULAR PROGRAMS. TODAY, I BELIEVE OUR PARTNERSHIP

WITH MWR IS STRONGER THAN EVER, AS WE STRIVE TO WORK TOGETHER TO ENSURE THE MOST OPTIMAL USE OF OUR NONAPPROPRIATED FUND RESOURCES TO SUPPORT OUR SAILORS.

THE FUTURE OF THE EXCHANGES IS BASED ON OUR ABILITY TO PROACTIVELY MEET THE CHALLENGES WE FACE TODAY. THE TEAM WITHIN THE NAVY EXCHANGE SYSTEM IS STRONG. WE HAVE SUCCESSFULLY LOOKED TO THE EXPERTS FROM THE CIVILIAN SECTOR, EMPLOYING INDIVIDUALS FROM INDUSTRY WHO CAN PROVIDE THE DIRECTION TO STEER OUR EXCHANGE SYSTEM INTO THE FUTURE. IN 1972, THERE WAS 8 SQUARE FEET OF RETAIL SPACE PER PERSON IN THE UNITED STATES; TODAY THERE IS 18.7 SQUARE FEET PER PERSON. THE RETAIL MARKET IS SATURATED IN THE CIVILIAN SECTOR. MORE THAN 4,000 STORES IN THE CIVILIAN SECTOR CLOSED IN 1995 AND RETAIL CONSULTANT EXPERTS PREDICT AS MANY AS 7,000 WILL CLOSE IN '96. MANY REGIONAL DISCOUNTERS HAVE HAD TO FILE FOR CHAPTER 11 BANKRUPTCY. YET- THE NAVY EXCHANGE SYSTEM HAS REMAINED SOUND.

DURING THIS ANNIVERSARY YEAR, WE ARE NOT JUST LOOKING BACK AT HOW OUR EXCHANGE SYSTEM HAS PROGRESSED, BUT WE ARE ALSO LOOKING AHEAD TO ENSURE ITS VIABILITY IN THE FUTURE. WE ARE UTILIZING MANAGEMENT ASSIST TEAMS TO REVIEW ALL OPERATIONS WITH THE OBJECTIVE OF ACHIEVING INCREASED OPERATING EFFICIENCIES. THROUGH OUR CONTACTS WITH THE RETAIL INDUSTRY, WE ARE EMPLOYING BEST

BUSINESS PRACTICES AND STATE OF THE ART TECHNOLOGY. IN 1994 WE EMBARKED ON A MAJOR MODERNIZATION EFFORT FUNDED SOLELY WITH NONAPPROPRIATED FUNDS. THIS EFFORT IS ON TRACK TO BE COMPLETED IN FY97. SIGNIFICANT SAVINGS OF UP TO \$50M ANNUALLY, WILL BE REALIZED THROUGH STREAMLINING AND CONSOLIDATION OF BUYING, INFORMATION SYSTEMS, ACCOUNTING, AND DISTRIBUTION FUNCTIONS. HOWEVER, UPDATING WITH COMMERCIAL STATE OF THE ART TECHNOLOGY IS NOT THE ONLY ANSWER TO ACHIEVING EFFICIENCIES. ALONG WITH THIS EFFORT WE ARE LOOKING BEYOND THE SYSTEMS AND HAVE DEVELOPED TEAMS FROM OUR STORES, REGIONS AND HEADQUARTERS TO REDESIGN OUR BUSINESS PROCESSES. OUR BUSINESS PROCESS REENGINEERING TEAMS ARE DEVELOPING MODELS BY ADAPTING BEST RETAIL BUSINESS PRACTICES TO THE NAVY EXCHANGE SYSTEM - TAKING FULL ADVANTAGE OF AVAILABLE COMMERCIAL, OFF THE SHELF INFORMATION SYSTEMS

THE ROLE OF OUR PARTNERSHIP WITH THE CIVILIAN SECTOR IS KEY TO OUR FUTURE. WE RECOGNIZE THAT WE MUST LOOK TO OTHER ALTERNATIVES TO ACHIEVE IMPROVED DELIVERY OF QUALITY GOODS AND SERVICES TO OUR CUSTOMERS. OUR PARTNERSHIP WITH INDUSTRY IN BUILDING GAS STATIONS, CONVENIENCE STORES AND FAST FOOD OPERATIONS HAS PROVEN VERY SUCCESSFUL AND CONTRIBUTED GREATLY TO OUR BOTTOM LINE. THESE OPERATIONS ARE BUILT AS TURN KEY OPERATIONS, REDUCE THE CAPITAL

REQUIREMENTS ON NONAPPROPRIATED FUNDS, AND EXPEDITE THE AVAILABILITY OF SERVICE TO OUR PATRONS. IN NOVEMBER 1994, A NEW FAST FOOD CONTRACT WAS AWARDED TO MCDONALDS AND THEIR LOCAL OWNERS/FRANCHISES. IN ADDITION TO THE INCREASED CONTRIBUTION TO THE BOTTOM-LINE, WE WILL BE ABLE TO PROVIDE OUR SAILORS WITH BRAND NAME RECOGNITION AT 73 FACILITIES, AN INCREASE OF 26 FROM THE INITIAL CONTRACT. ALSO, THE NAVY DESIGNATED THE NAVY EXCHANGE SYSTEM AS THE PROGRAM MANAGER FOR ALL PERSONAL TELECOMMUNICATIONS AND IN DECEMBER 1995 WE AWARDED A LICENSE AGREEMENT TO AT&T. THIS AGREEMENT NOT ONLY SUPPORTS PHONES IN BACHELOR QUARTERS FOR OUR SINGLE SAILORS, MARINES, AND COAST GUARD MEMBERS BUT ALSO PROVIDES A MINIMUM GUARANTEE COMMISSION THAT WILL CONTRIBUTE EVEN MORE TO QUALITY OF LIFE PROGRAMS. THIS INITIATIVE WAS ABLE TO PROVIDE A MUCH NEEDED SERVICE WITHOUT THE RELIANCE ON APPROPRIATED FUNDS TO PROVIDE THE SUPPORT FOR WIRING AND OTHER COSTS.

ANOTHER KEY ELEMENT TO THE FUTURE VIABILITY OF THE NAVY EXCHANGE SYSTEM IS CAPITALIZATION. IN CONJUNCTION WITH MWR, WE HAVE DEVELOPED A FIVE YEAR CAPITALIZATION PLAN THAT IS REALISTIC AND EXECUTABLE. THE PLAN IS FOCUSED TO MEET THE OBJECTIVES OF FACILITY LIFE EXTENSION, OPERATING EFFICIENCIES THROUGH FACILITY CONSOLIDATION AND RELOCATION, RESPONSE TO CHANGING DEMOGRAPHICS

DUE TO BRAC/HOMEPORTING, AND RETURN ON INVESTMENT. OUR CAPITALIZATION STRATEGY IS BASED ON A CAPITALIZATION GOAL OF 3.4% OF SALES, SIMILAR TO THAT INVESTED BY OUR COMMERCIAL RETAIL COUNTERPARTS. OUR NAVY MWR/NEX BOARD OF DIRECTORS, COMPRISED OF SENIOR FLAG OFFICERS AND THE MASTER CHIEF PETTY OFFICER OF THE NAVY, AUTHORIZES AND APPROVES OUR JOINT CAPITALIZATION PLAN.

NEW BUSINESS INITIATIVES ARE BEING DEVELOPED TO HELP OFFSET THE IMPACT OF REDUCTIONS IN END STRENGTH AND THE COMPETITIVENESS OF THE RETAIL ENVIRONMENT. LIKE ANY SUCCESSFUL BUSINESS, WE TRY TO BE MULTI-FACETED, SO A DOWNTURN IN ONE SEGMENT OF OUR PROFITABILITY IS NOT CRITICAL, AND CAN BE OFFSET BY AN INCREASE IN ANOTHER AREA. WE STRIVE TO OFFER THE BEST VALUE FOR OUR CUSTOMERS WITH A FOCUS ON OUR YOUNG ENLISTED AND THEIR FAMILIES. OUR SUPER VALUE PROGRAM INCLUDES HOME FURNISHINGS AS WELL AS CLOTHING. OUR NEW BASIC CONCEPTS OPENING PRICE POINT PRIVATE LABEL CLOTHING HAS BEEN EXCEPTIONALLY SUCCESSFUL WITH SALES IN THE FIRST YEAR OF OVER \$5 MILLION. BASIC CONCEPTS PROVIDES YOUNG SAILORS QUALITY CLOTHING AT VERY AFFORDABLE PRICES. OUR KINGS BAY PRIVATE LABEL PROVIDES FASHION AND VALUE IN CASUAL FAMILY CLOTHING AT MODERATE PRICES. KINGS BAY IS ENTERING ITS' THIRD YEAR AND SALES HAVE ALSO GROWN TO OVER \$5 MILLION. CUSTOMER ACCEPTANCE HAS BEEN PHENOMENAL. THE

SECRETARY OF THE NAVY HAS INCREASED THE FOCUS ON QUALITY OF LIFE PROGRAMS, EMPHASIZING THE NEEDS OF OUR SINGLE SAILORS. WE ARE DOING OUR PART TO WORK WITH THE NAVY THROUGH EFFORTS SUCH AS OUR PERSONAL TELECOMMUNICATIONS AGREEMENT TO MEET THESE REQUIREMENTS, WITHOUT PLACING INCREASED DEMANDS ON APPROPRIATED FUND SUPPORT. OTHER AREAS WE ARE WORKING ON FOR SINGLE SAILORS INCLUDE AUTO STORAGE, PERSONAL PROPERTY STORAGE AND TELEPHONE SERVICE AFLOAT. ANOTHER AREA WE HAVE WORKED WITH THE NAVY IS OUR OPTOMETRY CLINICS. THE FIRST TEST SITE AT NAVAL BASE NORFOLK IS HIGHLY SUCCESSFUL. WE APPRECIATE YOUR APPROVAL AND HAVE ISSUED SOLICITATIONS FOR TEN MORE OPTOMETRY CLINICS. IN ADDITION, WE HAVE RECEIVED REQUESTS FOR ADDITIONAL SITES. WE HAVE BEEN ABLE TO PROVIDE THESE SERVICES TO SAILORS AND MILITARY FAMILIES WITHOUT ADDITIONAL COSTS TO THE TAXPAYERS. WE HAVE RESPONDED TO WHAT OUR CUSTOMERS WANT AND NEED AND WE HAVE WORKED AS A TEAM WITH THE NAVY TO DO OUR PART TO BE THE MOST EFFICIENT OPERATION WE CAN BE.

OUR COOPERATIVE INITIATIVES WITH OTHER MILITARY EXCHANGE SERVICES CONTINUE TO PLAY A VITAL ROLE. THROUGH THE EFFORTS OF THE DEPARTMENT OF DEFENSE EXECUTIVE RESALE BOARD, COST SAVINGS ARE BEING REALIZED. THESE INITIATIVES INCLUDE THE USE OF EACH OTHERS'

DISTRIBUTION SYSTEMS, NAVY'S USE OF AAFES' FOOD CONCEPTS, AND THE DEVELOPMENT OF COMMON PRIVATE LABEL PRODUCTS. CURRENTLY, FIFTEEN MARINE CORPS EXCHANGES WORLDWIDE DRAW MERCHANDISE FROM NAVY EXCHANGE DISTRIBUTION CENTERS. NAVY EXCHANGES ALSO PROVIDE VAN-STUFFING SERVICES FOR SUPPORTED MARINE CORPS EXCHANGES OVERSEAS AT SAVINGS OF OVER 30%. ALL THE EXCHANGE SERVICES, INCLUDING THE COAST GUARD, PARTICIPATE IN THE SHARED USE OF PRIVATE LABEL PROGRAMS. THESE SHARED PRIVATE LABEL PROGRAMS INCLUDE FILM, APPAREL, HOUSEHOLD PRODUCTS, LUGGAGE, AUTOMOTIVE PRODUCTS, TOWELS, AND HEALTH AND BEAUTY AIDS. THE EXCHANGE SERVICES ALSO SHARE A COMMON PRIVATE LABEL NAME FOR SELECTED MERCHANDISE CATEGORIES - AMERICAN MERCANTILE. ONE OF THE SUCCESSFUL AMERICAN MERCANTILE PRODUCTS IS FILM AND SINGLE USE CAMERAS WHICH SAVES NAVY EXCHANGE CUSTOMERS 16%, OR APPROXIMATELY \$300 THOUSAND A YEAR. THE MARINES AND COAST GUARD ARE FULL PARTNERS IN THE RECENTLY AWARDED AT&T PERSONAL TELECOMMUNICATIONS AGREEMENT. IN ADDITION, A COOPERATIVE EFFORT WITH AAFES PROVIDES NEW RELEASE VIDEO RENTAL MOVIES TO OUR 83 VIDEO OUTLETS AND HAS PROVEN TO BE A VERY SUCCESSFUL ENDEAVOR.

ANOTHER EXCELLENT EXAMPLE OF LONGSTANDING COOPERATIVE EFFORTS ARE OUR ELEVEN NEXMARTS OVERSEAS, WHERE DECA AND THE NAVY EXCHANGE SYSTEM HAVE COMBINED OPERATIONS TO OFFER SAILORS AND THEIR FAMILIES AN EXCELLENT SELECTION OF FOOD AT COMMISSARY PRICES AND RETAIL MERCHANDISE IN OVERSEAS LOCATIONS.

THE CONTINUED SUPPORT OF THIS PANEL IS BOTH APPRECIATED AND NEEDED. THROUGH YOUR EFFORTS, WE CAN CONTINUE TO MEET OUR MISSION AND REMAIN COMPETITIVE WITH THE CIVILIAN SECTOR.

IN CLOSING I WANT TO REITERATE THAT OUR CUSTOMERS ARE NOT LIKE ANY OTHER. OUR SAILORS SPEND MONTHS AT A TIME ON SHIPS AT SEA AWAY FROM FAMILIES. THIS IS A TOUGH LIFE. WORK IS VERY HARD, PAY ISN'T GREAT BUT THE JOB IS IMPORTANT. WE OWE IT TO THEM TO DO OUR PART TO CONTRIBUTE TO THEIR QUALITY OF LIFE. WE MUST TAKE CARE OF OUR SAILORS WHEN THEY'RE AT SEA AND IN PORT AND LOOK AFTER THEIR FAMILIES WHEN THEY'RE GONE. WE ALSO HAVE AN OBLIGATION TO TAKE CARE OF OUR RETIREES, RESERVISTS AND THEIR FAMILIES. AN EXCHANGE CUSTOMER IS A CUSTOMER FOR LIFE, IF NOT, THEN WE'RE NOT DOING OUR JOB. OUR CUSTOMERS ARE NOT LIKE ANYBODY ELSE, OUR RETAIL SYSTEM IS NOT LIKE ANY OTHER RETAILER. THROUGH OUR CONTINUED PARTNERSHIP WITH THIS PANEL, INDUSTRY, OTHER SERVICE EXCHANGES, AND THE NAVY, WE WILL CONTINUE TO FULLY SUPPORT OUR NAVY FAMILIES AROUND THE WORLD.

I THANK YOU FOR THE OPPORTUNITY TO BE HERE TODAY AND LOOK FORWARD TO ANSWERING YOUR QUESTIONS.

Mr. McHUGH. Thank you very much, Captain Bennett.

Our final presenter on this panel is Brig. Gen. James Joy, U.S. Marine Corps, retired, who is the Director of MWR support activity for the U.S. Marine Corps.

General Joy, welcome, sir.

**STATEMENT OF BRIG. GEN. JAMES R. JOY, DIRECTOR, MWR
SUPPORT ACTIVITY, U.S. MARINE CORPS**

General JOY. Mr. Chairman and distinguished members of the panel, it is a great privilege to be here to represent the Commandant of the Marine Corps at these hearings.

I would like to make about four points in regard to our exchanges. However, before that I would like to preface my remarks by a couple of introductory comments. First off, our exchange system is different than the other exchanges in that in 1988 the Marine Corps made a decision to merge the MWR program and the exchange into a single organization. What that means in simple terms is that we have one personnel system, one accounting system, one management information system, one construction system, et cetera, that supports all of MWR.

The other point I would like to make is that when we had the Jones II study, the Undersecretary of Defense at that time, Mr. Atwood, challenged the directors of the exchange system that although we were not going to be consolidated, we were going to have to work cooperatively and work a lot closer together. That has been our guide over the last 4 or 5 years, and you will see that reflected in my remarks that will follow.

The first point that I want to cover is performance. Like everybody, our sales were down slightly in 1995. However, our decrease in sales was different than AAFES and NEXCOM, in that it was not related to a drawdown of forces.

Our drawdown, as you recall, was about 20,000 people, and it occurred a couple of years ago. We are behind that. Our decrease in sales of 6 percent this year was largely the result of this being the second year of our involvement in the deferred payment plan.

We have outsourced AAFES—our credit program for our patrons—and AAFES, NEXCOM, and all of us have gone through a spike in sales. The following year, you have a decrease in sales. So we witnessed that in 1995. Our sales have steadily risen before 1995 and we are looking for a slight increase in 1996.

As far as profits, our profits have been fairly stable the last few years—this year, there were profits of \$40 million: \$28 million went into a dividend to MWR and the other \$12 million into capitalization. In 1996, we are looking for a slight increase in sales and profit.

The second point I would like to make has to do with capitalization. We have a very aggressive and very strong recapitalization program in regard to our physical plant. As I have told the committee before, the commandant requires us to make an investment up front. Every dollar that goes through the cash register—in the past, \$1.25—has gone into recapitalization of our physical plant. This year, we have raised that to 1.5 percent.

Also, the new-found revenue that is coming from the telephone contract that Captain Bennett referred to, the guarantee above and

beyond what we are making at the present time, we are going to invest that into recapitalization.

This year, what that means to us as far as new facilities is that we are building a new exchange at Kaneohe Bay, HI. I would like to mention that that exchange is being built by General Bunker's people as one of our cooperative initiatives.

We have a major renovation underway in one of our biggest exchanges, at San Diego. We are also building an important new facility at Camp Pendleton, CA, which is also being built by AAFES.

In 1996, we will have an additional facility built at Kaneohe Bay for our service complex, and another service complex, at Cherry Point, NC.

Resystemization of our system. Like everybody, our electronic point of sale, our cash registers, our accounting, and MIS accounting and merchandise systems are outmoded. We are in the middle of a major project to replace our cash registers, electronic point of sale, which is about a \$10 million project. We are also working closely with the Navy exchange system to outsource our retail, merchandise, and accounting solution to the Navy exchange system.

Lastly, in regard to other cooperative initiatives, Captain Bennett alluded to cooperative buying. I am proud to report that this year we are going to buy \$90 million of merchandise. And, keep in mind, we have about \$500 million in annual sales. We are going to buy \$90 million of our merchandise through the Navy exchange and AAFES.

Also, some of the cooperative initiatives that have been very helpful to us are, we are implementing or utilizing at the present time several fast-food concepts that AAFES has developed over the last few years.

I mentioned in regard to construction—I will come back to that when I talk to you about MWR—but you should understand that AAFES has agreed not only to build exchange projects for us, but they are also helping us with recreation and food and hospitality projects.

Sir, with that, I will close and be happy to answer any questions. [The prepared statement of General Joy follows:]

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STATEMENT OF

MR. JAMES R. JOY

DIRECTOR, MORALE, WELFARE AND RECREATION SUPPORT ACTIVITY

BEFORE THE MORALE, WELFARE AND RECREATION PANEL

OF THE

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UNITED STATES MARINE CORPS

HEADQUARTERS MARINE CORPS, DIVISION OF PUBLIC AFFAIRS
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BRIGADIER GENERAL JAMES R. JOY, USMC (Ret.) SENIOR EXECUTIVE SERVICE

Brigadier General James R. Joy is the Director, Morale, Welfare and Recreation Support Activity, Manpower Department, Headquarters Marine Corps, Washington, D.C.

General Joy is a native of Northwest, Mo. He graduated from Northwest Missouri State University in 1957 with a B.S. degree in Education, and also holds a M.S. degree in Public Administration from George Washington University and an M.A. degree in Human Affairs from the University of Oklahoma.

Commissioned a second lieutenant in June 1957, he attended The Basic School at Quantico, Va., graduating in February 1958. From there, he reported to Camp Pendleton, Calif., where he served as a Platoon Leader with the 1st Marine Division, until February 1959. He was next ordered to duty aboard the aircraft carrier USS ORISKANY (CVA-3), as the Executive Officer of the ship's Marine Detachment. Following sea duty, General Joy spent the next three years with Headquarters and Headquarters Squadron, Marine Corps Air Station, Santa Ana, Calif., where he served consecutively as Adjutant, Executive Officer and Commanding Officer. During this tour, he was promoted to captain in June 1962.

In June 1963, General Joy received orders to Washington, D.C., for duty with the 13th Infantry Battalion, USMCR. He remained in this assignment until he deployed to Vietnam for duty with the 26th Marines. While in Vietnam he was promoted to major in February 1967. He returned to the United States in July 1967, and attended the Command and Staff College at Quantico. Upon graduation was assigned to the Office of Secretary of Defense, Washington, D.C.

He returned to Vietnam for duty as an advisor with the Vietnamese Marine Corps in July 1971, following by duty in the Canal Zone, where he served as Commanding Officer of the Marine Barracks, with additional duty as Marine Officer on the Staff of Commander, U.S. Naval Forces, Southern Command. He was promoted to lieutenant colonel in September 1973.

Transferred to the U.S., General Joy spent three years at Headquarters Marine Corps, Washington, D.C., in the Operations Division, Operations and Training Department. During academic year 1978-79, General Joy was a student at the Army War College, Carlisle Barracks, Pa., and upon graduation, he reported to Camp Lejeune for duty with the 2d Marine Division, serving initially as G-1, Commanding Officer of the 8th Marines and, for the last year, Chief of Staff. While in this assignment, he was promoted to colonel in July 1979.

General Joy was assigned duty as the Fleet Marine Officer on the Staff of Commander, 6th Fleet in May 1982. While serving in this capacity, he was selected in February 1983 for promotion to brigadier general. He was advanced to that grade on July 5, 1983 and assigned duty as the Assistant Division Commander, 2d Marine Division, FMF, Atlantic, Camp Lejeune, N.C., on August 2, 1983. During November he was assigned as the Commanding General of the 22d Marine Amphibious Unit in Lebanon. The following February, he became the Commander of Joint Task Force, Lebanon. He was assigned duty as the Deputy Commanding General, Marine Corps Recruit Depot/Deputy Commanding General, Eastern Recruiting Region, Parris Island, S.C., on May 22, 1984. During June 1985, he was reassigned to Headquarters Marine Corps where he was the Director, Personnel Procurement Division, Manpower Department. He retired from active duty on June 1, 1988, and assumed his new position on June 2, 1988.

His medals and decorations include: the Legion of Merit with Combat "V" and three gold stars in lieu of a second, third, and fourth award, the Bronze Star Medal with Combat "V"; the Purple Heart; Joint Service Commendation Medal; Navy Commendation Medal with Combat "V"; the National Defense Service Medal; Vietnam Service Medal; Sea Service Deployment Ribbon; Republic of Vietnam Cross of Gallantry with silver star; the Republic of Vietnam Campaign Medal with device, and the Republic of Lebanon Order of the Cedar.

Brigadier General Joy his wife, the former Patricia Jo New of Maryville, Mo., have two daughters, Amy and Abby.

(Revised Nov. 8, 1995 HQMC)



I. INTRODUCTION

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE MWR PANEL.

IT IS A DISTINCT PLEASURE TO APPEAR BEFORE YOU TODAY AND HAVE THIS OPPORTUNITY TO REPORT ON OUR MARINE CORPS MORALE, WELFARE AND RECREATION PROGRAM, WHICH INCLUDES MARINE CORPS EXCHANGES AND MWR RECREATION AND LEISURE ACTIVITIES.

IN MY LAST APPEARANCE, I SPOKE OF THE CHALLENGES AND CHANGES WE WOULD FACE OVER THE NEXT FEW YEARS. I BELIEVE THAT OUR RECORD SHOWS WE ARE MEETING THOSE CHALLENGES AND ADAPTING TO THE CHANGES IN OPERATING ENVIRONMENT IN WAYS THAT IMPROVE THE QUALITY OF LIFE OF MARINES AND THEIR FAMILIES.

I WOULD LIKE TO PREFACE MY REMARKS WITH A BRIEF OVERVIEW OF HOW OUR ORGANIZATION IS STRUCTURED, WHICH IS SOMEWHAT DIFFERENT FROM THOSE OF OUR SISTER SERVICES.

IN JULY 1988, THE MARINE CORPS MERGED EXCHANGES AND SERVICES OPERATIONS WITH FOOD AND HOSPITALITY AND RECREATION OPERATIONS TO FORM A SINGLE NONAPPROPRIATED FUND (NAF) INSTRUMENTALITY. WE MADE THIS CHANGE BECAUSE IT MADE EXCELLENT BUSINESS SENSE TO JOIN THOSE ACTIVITIES WHICH HAD THE COMMON GOAL OF SUPPORTING THE MORALE AND WELFARE OF MARINES. WE ALSO WERE ABLE TO ACHIEVE ECONOMIES OF SCALE, REDUCE ORGANIZATIONAL REDUNDANCIES, AND RESPOND IN A PROACTIVE WAY TO THE CONGRESSIONAL MANDATE THAT WE OPERATE IN AN EFFICIENT AND BUSINESS LIKE MANNER. THOUGH CONSOLIDATED, MARINE CORPS MWR IS DECENTRALIZED; WITH RESPONSIBILITY FOR DELIVERY OF PROGRAMS AND SERVICES IN THE HANDS

OF THE INSTALLATION COMMANDER. THEREFORE, ACCOUNTABILITY FOR THE PROGRAM LIES CLOSEST TO THE CUSTOMER. AFTER EIGHT YEARS, I BELIEVE MORE THAN EVER THAT THE SYNERGY ACHIEVED BY OUR CONSOLIDATED OPERATION AND THE PLACEMENT OF RESPONSIBILITY CLOSEST TO THE CUSTOMER ARE CRITICAL ELEMENTS OF OUR SUCCESS. THIS HAS MADE IT POSSIBLE FOR US TO DELIVER MORE AND BETTER PROGRAMS AND SERVICES TO MARINES AT AN AFFORDABLE COST. OUR "DELIVERY SYSTEM" IS RESPONSIVE TO THE MARINES WHO ARE ITS CUSTOMERS. IT CONFORMS TO OUR PRECEPT THAT "MARINES TAKE CARE OF THEIR OWN."

II. OUR STRATEGIC VISION

OUR STRATEGIC PLANNING MODEL IS BUILT UPON SEVEN CONCRETE AND ACHIEVABLE GOALS: RESTRUCTURING - TO ACHIEVE ECONOMIES AND EFFICIENCY WHICH ALLOW US TO DELIVER OPTIMUM PROGRAMS AT LOWEST COST; PROGRAM ENHANCEMENT - TO HAVE VIABLE, CUSTOMER-FOCUSED CORE AND LOCALLY TAILORED PROGRAMS AND FACILITIES THAT ARE CONSISTENT ACROSS THE CORPS; CAPITALIZATION OF PROGRAMS, FACILITIES, AND EQUIPMENT - TO ENHANCE PROGRAMS, MEET THE EXPRESSED NEEDS OF MARINES, AND EXCEED THEIR EXPECTATIONS; RESOURCE THE MWR PROGRAM - TO ENSURE THAT ADEQUATE APPROPRIATED FUNDS ARE AVAILABLE TO SUPPORT THE CORE MWR PROGRAM AND MEET THE NEEDS OF OUR MARINES; IMPROVE INFORMATION SYSTEMS - TO ENABLE OUR PROGRAMS AND ACTIVITIES TO CAPITALIZE ON THE BEST PRACTICES OF INDUSTRY LEADERS; HUMAN RESOURCES - TO RECRUIT, RETAIN, AND EMPOWER A HIGHLY QUALIFIED, MOTIVATED WORK FORCE; AND IMAGE ENHANCEMENT - TO BE RECOGNIZED BY OUR CUSTOMERS AS A CONSISTENTLY SUPERIOR,

RESPONSIVE, MISSION SUPPORTING, AND CUSTOMER-CENTERED ORGANIZATION.

THESE SEVEN GOALS ARE THE CORNERSTONE OF OUR MARINE CORPS MORALE, WELFARE AND RECREATION STRATEGIC PLAN 1995 - 2001. THEY ARE BEING USED TO MONITOR OUR PROGRESS AND MAP OUR COURSE OF IMPROVEMENT IN THE YEARS AHEAD.

III. BRINGING QUALITY TO MARINES' LIVES

MWR PROGRAMS AND ACTIVITIES TOUCH ALL MARINES AND THEIR FAMILY MEMBERS, NO MATTER WHO THEY ARE OR WHERE THEY MAY BE. BECAUSE WE ARE A FORWARD-DEPLOYED FORCE, MANY OF OUR FAMILIES UNDERGO LONG SEPARATIONS IN THE COURSE OF A YEAR. MWR PROGRAMS AND SERVICES ARE THERE FOR THE FAMILIES LEFT AT HOME, THE "GLUE" THAT ADDS TO THE SENSE OF COMMUNITY WHICH CONTRIBUTES TO PEACE OF MIND. A MAJOR FINDING OF THE MARINE CORPS QUALITY OF LIFE RESEARCH STUDY IS THE MANNER IN WHICH MWR PROGRAMS ENHANCE PERSONAL READINESS; THROUGH INDIVIDUAL FITNESS AND WELL-BEING AND THROUGH THE READINESS OF MARINES TO DEPLOY, KNOWING THEIR FAMILIES ARE SAFE AND IN A SUPPORTIVE ENVIRONMENT.

MWR BRINGS QUALITY TO THE LIVES OF OUR MARINES. FROM THE INTRAMURAL SPORTS PROGRAMS WHICH CONTRIBUTE TO INDIVIDUAL FITNESS, HONE COMPETITIVE SKILLS, AND ADD TO UNIT CAMARADERIE TO THE LIBRARIES THAT SUPPORT OFF DUTY LEARNING TO THE CLUBS AND RESTAURANTS THAT SPARK LEISURE TIME, MWR IS THERE FOR MARINES. THE OVER 20 MAJOR PROGRAMS OF MWR; SPORTS, PHYSICAL FITNESS, COMMUNITY SERVICE, FOOD AND BEVERAGE, AND RETAIL ACTIVITIES EACH DELIVER A PORTION OF LIFE QUALITY.

IV. RESOURCES

RESOURCES ARE CRUCIAL TO OUR DELIVERY SYSTEM; BOTH APPROPRIATED FUNDS AND NONAPPROPRIATED FUNDS. TRADITIONALLY, MARINE CORPS MWR HAS OPERATED WITHIN A SCARCE APPROPRIATED FUND ENVIRONMENT. WE ARE EXTREMELY APPRECIATIVE OF THE APPROPRIATED FUND PLUS UPS OF RECENT YEARS, FROM THE MARINE CORPS FY96 BUDGET POLICY AS WELL AS THE QUALITY OF LIFE INITIATIVE OF SECRETARY PERRY. ACHIEVING A PER CAPITA PARITY WITH THE OTHER SERVICES WILL ENABLE US TO ADDRESS TRADITIONAL SHORTFALLS IN OUR CATEGORY A AND B MISSION ESSENTIAL ACTIVITIES. IF WE COULD REACH THE DOD GOAL OF 100 PERCENT APPROPRIATED FUNDING FOR CATEGORY A AND 65 PERCENT APPROPRIATED FUNDING OF CATEGORY B ACTIVITIES, WE COULD THEN USE INCREASINGLY HARD TO GENERATE NONAPPROPRIATED FUNDS, OR "MARINE DOLLARS" AS I CALL THEM, TO BETTER SUPPORT OUR RECREATIONAL PROGRAMS FOR MARINES AND THEIR FAMILIES.

IN SPITE OF THE PROGRESS MADE OVER THE PAST TWO YEARS, WE BELIEVE WE HAVE A WAY TO GO BEFORE WE ARE ABLE TO FEEL CONFIDENT WE ARE TRULY MEETING THE NEEDS OF OUR MARINES. THE BUDGET SUBMISSION FOR FY97 ASKS FOR \$54M IN APF DIRECT SUPPORT. THIS FUNDING LEVEL ALLOWS US TO CONTINUE OUR STRONG SUPPORT AND IMPROVEMENT OF OUR CATEGORY A AND B ACTIVITIES.

NONAPPROPRIATED REVENUES HAVE TRADITIONALLY BEEN THE "FUNDS OF CHOICE" TO SUPPLANT SCARCE APPROPRIATED FUNDS. IN THE CHANGING OPERATING ENVIRONMENT WE LIVE IN, HOWEVER, NAF REVENUES ARE BY NO MEANS CERTAIN ANY MORE. OUR EXCHANGES REMAIN IN GOOD HEALTH, DESPITE THE FACT THAT 1995 WAS A VERY TOUGH YEAR FOR ALL RETAILERS. OUR FINAL ESTIMATE OF FY95 SALES, \$517M, IS DOWN BY

ABOUT SIX PERCENT FROM 1994, PARTIALLY DUE TO THE DIFFICULT RETAIL ENVIRONMENT AND A MATURING OF THE DPP PROGRAM WE PARTICIPATE IN AS A PARTNER OF AAFES. IN SPITE OF INTENSE COMPETITION OUTSIDE OUR GATES, FROM DEEP DISCOUNTERS, "CATEGORY KILLERS," AND CHAIN STORES, OUR EXCHANGE PROFIT DISTRIBUTIONS (DIVIDEND) CONTRIBUTED \$28M TO RECREATION PROGRAMS IN FY95. WHILE RESULTS SO FAR THIS YEAR SHOW SALES AND OPERATING PROFITS SLIGHTLY DOWN, ANTICIPATED FY96 SALES ARE PROJECTED TO BE SLIGHTLY UP, AT \$542M. ENSURING SUFFICIENT REVENUE TO SUPPORT OUR PROGRAMS FOR MARINES IS A CRITICAL REQUIREMENT FOR US IN FY96 AND BEYOND. CAPITALIZATION OF OUR RETAIL ACTIVITIES HAS BEEN A PRIORITY OVER THE PAST FEW YEARS. WE CURRENTLY HAVE AN EXCHANGE COMPLEX UNDER CONSTRUCTION AT KANEOHE BAY, HAWAII, AND TWO OF OUR EXCHANGES ARE UNDERGOING MAJOR RENOVATIONS. WITH THE COMPLETION OF THOSE PROJECTS, ALL OUR EXCHANGE FACILITIES WILL BE EITHER NEW OR VERY RECENTLY RENOVATED.

V. MWR RECAPITALIZATION

OUR RECAPITALIZATION EFFORTS HAVE EXTENDED TO ALL OF OUR MWR FACILITIES. BASED ON AN EXHAUSTIVE INVENTORY OF MWR FACILITIES TAKEN IN 1994, WE HAVE REORIENTED OUR CONSTRUCTION PROGRAM TO ADDRESS AS MANY OF OUR REQUIREMENTS AS WE CAN POSSIBLY EXECUTE. OUR FY95 CONSTRUCTION PROGRAM, FOR EXAMPLE, WAS INCREASED FROM SEVEN PROJECTS AT A COST OF \$25.9M TO 131 PROJECTS (MOST MINOR RENOVATIONS) AT A COST OF \$48.7M. IN FY96, WE HAVE A TOTAL OF 17 PROJECTS ON LINE AT \$41.9M COST. IN ADDITION TO THE CENTRAL CONSTRUCTION FUND, WE HAVE USED FUNDS FROM THE SWEEP OF EXCESS

CASH TO ENHANCE THIS PROGRAM. WE HAVE ALSO USED \$14M OF OUR APPROPRIATED FUND PLUS UP IN FY96 AND FY97 TO ADDRESS OUR CRITICAL APPROPRIATED FUND MAINTENANCE AND REPAIR NEEDS. WHILE 100 PERCENT OF OUR NEEDS ARE NOT FUNDED, WE HAVE BEEN ABLE TO MAKE STRONG PROGRESS IN ADDRESSING FACILITY CONSTRUCTION, MAINTENANCE, AND REPAIR SHORTFALLS.

WE REALIZE THAT THE GAP BETWEEN AVAILABLE RESOURCES AND NEEDS WILL, TO SOME DEGREE, ALWAYS BE THERE. MWR IS A PEOPLE PROGRAM THAT, AS OUR RESEARCH HAS DEMONSTRATED, DIRECTLY CONTRIBUTES TO THE READINESS OF OUR MEN AND WOMEN TO DEPLOY AND DEFEND THE NATION'S INTERESTS. YET WE ARE ACUTELY AWARE THAT PRIORITY OPERATIONAL AND READINESS NEEDS MUST BE SUPPORTED. I AM CONFIDENT THAT OUR RECORD PROVES THAT MARINE CORPS STEWARDSHIP OF RESOURCES HAS BEEN EXCELLENT. WE INTEND TO KEEP TO THE STANDARD WE HAVE ESTABLISHED IN THE FUTURE.

VI. MWR INITIATIVES

OUR RESEARCH HAS SHOWN THAT MARINES, ESPECIALLY THE JUNIOR ENLISTED MARINES WHO MAKE UP 49 PERCENT OF THE FORCE, WANT STATE-OF-THE-ART FITNESS CENTERS, QUALITY LIVING QUARTERS, AND PLACES TO MEET WITH THEIR FRIENDS AND "HANG OUT." THEY ALSO EXPRESSED A KEEN DESIRE TO HAVE TELEPHONE SERVICE AVAILABLE IN BACHELOR QUARTERS. DURING THE LAST YEAR, WE HAVE DEVELOPED INITIATIVES TO ADDRESS THESE VERY REAL NEEDS.

IN DECEMBER 1995, WE ENTERED INTO A COOPERATIVE PARTNERSHIP WITH THE NAVY EXCHANGE SERVICE COMMAND (NEXCOM) AND JOINED THEIR REQUEST FOR PROPOSALS TO PROVIDE PERSONAL TELECOMMUNICATIONS

SERVICE ABOARD OUR BASES. THE CONTRACT, SIGNED ON DECEMBER 15, 1995, WILL PROVIDE A FLEXIBLE, PERSONAL, VERY LOW COST SERVICE FOR SAILORS AND MARINES. MOST IMPORTANT, NO SCARCE MARINE FUNDS ARE REQUIRED TO FINANCE THE INITIATIVE. THE ESTIMATED COST OF WIRING MARINE CORPS BARRACKS IS \$35M; IT WILL BE UNDERWRITTEN BY THE CONTRACTOR.

WE HAVE DEVOTED CONSIDERABLE ENERGY AND RESOURCES TO IMPROVING OUR FITNESS CENTERS, LIBRARIES, AND RECREATION ROOMS/CENTERS; ANOTHER EXPRESSED NEED OF MARINES. MARINES WANT QUALITY FITNESS CENTERS BECAUSE IT IS A PREFERRED LEISURE ACTIVITY AND WORKING OUT CONTRIBUTES TO THEIR READINESS AND PFT SCORES. WE HAVE COMMITTED OUR MWR APPROPRIATED FUNDS TO IMPROVE FITNESS CENTERS AND HAVE ESTABLISHED A SET OF MINIMUM STANDARDS FOR THESE FACILITIES WHICH WILL BE OPERATIVE BY FY98. WE ARE ALSO PLANNING TO INVEST APPROPRIATED FUNDS IN OUR LIBRARIES, ADDING COMPUTERS AND ONLINE DATA SERVICES TO MODERNIZE THEM AND MAKE THEM EQUAL TO ANY LIBRARY IN AMERICA. LAST, WE ARE COMMITTED TO PROVIDING RECREATION ROOMS IN ENLISTED QUARTERS AND ARE PLANNING CENTRAL RECREATION CENTERS LOCATED IN TROOP AREAS WHERE FEASIBLE. RECREATION ROOMS ARE EQUIPPED WITH LARGE SCREEN TELEVISIONS, COMFORTABLE FURNISHINGS, GAMES, AND OTHER AMENITIES. RECREATION CENTERS, LOCATED IN TROOP AREAS, WILL HAVE A HOST OF POPULAR OFFERINGS, INCLUDING RESTAURANTS AND FAST FOODS, LOUNGES, A MEETING ROOM, COMPUTER ROOM, VIDEO ARCADE, DRY CLEANERS, CONVENIENCE STORE, AND THE LIKE.

MWR WORKS WITH COMMANDERS TO PROVIDE RESOURCES FOR MARINES. OUR SINGLE MARINE PROGRAM IS AN EXAMPLE. WHILE SPONSORED BY MWR,

THE SINGLE MARINE PROGRAM IS ACTUALLY A COMMANDER'S PROGRAM. BASED ON A COMMITTEE OF 15 TO 20 UNIT REPRESENTATIVES FROM ACROSS AN INSTALLATION, THE SINGLE MARINE PROGRAM IS BECOMING A VIBRANT TOOL FOR INVOLVING YOUNG MARINES IN DEVELOPING THEIR QUALITY OF LIFE PROGRAM. THE COMMITTEE IDENTIFIES AND RECOMMENDS QUALITY OF LIFE ISSUES AND INITIATIVES TO BE CONSIDERED BY THE COMMAND IN FIVE KEY AREAS: HEALTH AND WELLNESS, LIFE SKILLS, COMMUNITY INVOLVEMENT, RECREATION, AND FUND RAISING. THUS, THE PROGRAM IS "OWNED" BY THE SINGLE MARINES, AND IS ADMINISTERED BY MWR.

OUR CLUBS ARE CHANGING TO MEET NEW CUSTOMERS AND CHALLENGES AS WELL. LAST JUNE, WE OPENED THE NEW TRIMODULAR "CLUBS AT QUANTICO," THE FIRST TRIMODULAR CLUB FACILITY ON A MARINE INSTALLATION IN CONUS. THE FACILITY FEATURES THREE GRADE-DISTINCT LOUNGE AREAS AND COMMON DINING AND BANQUET FACILITIES, ALLOWING ONE FACILITY AND STAFF TO OPERATE ACTIVITIES GEARED TO THREE SEPARATE CUSTOMER BASES. A SECOND TRIMODULAR CLUB HAS BEEN APPROVED FOR CONSTRUCTION AT MCAS YUMA. A NUMBER OF ENLISTED CLUBS ARE ADAPTING TO NEW USES AS THEY ARE BEING TRANSFORMED INTO COMMUNITY RECREATION CENTERS, WITH EMPHASIS ON RELAXATION AND RECREATIONAL OPPORTUNITY INSTEAD OF ALCOHOL. ACCEPTANCE OF THESE NEW CENTERS HAS BEEN EXCEPTIONALLY HIGH BY OUR MARINES.

VII. COOPERATIVE EFFORTS

WE HAVE MANY RETAIL COOPERATIVE INITIATIVES WITH AAFES AND WITH NEXCOM. THE PERSONAL TELECOMMUNICATIONS INITIATIVE I SPOKE ABOUT IS ONE EXAMPLE OF THE "WIN-WIN" COOPERATIVE EFFORTS MARINE CORPS MWR HAS ENTERED INTO WITH OUR SISTER SERVICES. THESE

EFFORTS MAKE SENSE FOR US, AS WE ARE ABLE TO ACHIEVE ECONOMIES OF SCALE AND ENHANCEMENT OF SERVICES AND PROGRAMS. WE HAVE OTHER COOPERATIVE INITIATIVES AS WELL. OUR EXCHANGES WILL BUY \$90M OF GOODS FROM AAFES AND NEXCOM DISTRIBUTION CENTERS THIS YEAR, AND MOST OF OUR GASOLINE IS COOPERATIVELY PURCHASED. WE ARE PARTICIPATING IN JOINT SERVICE PRIVATE LABEL, "AMERICAN MERCANTILE." WE ARE PURCHASING FROM THE NEXCOM FASHION DISTRIBUTION SYSTEM. NEXCOM IS ASSISTING US WITH TRANSPORTATION SERVICES. AAFES IS CURRENTLY MANAGING THE DESIGN AND CONSTRUCTION OF 19 MARINE CORPS PROJECTS, AND HAS AGREED TO WORK WITH US IN CONSTRUCTING NON RETAIL MWR FACILITIES. WE HAVE ENTERED INTO PARTNERSHIP WITH NEXCOM TO ACHIEVE A RETAIL/ACCOUNTING MIS THAT SAVES A CONSIDERABLE AMOUNT OVER "GOING IT ALONE."

OUR FOOD AND HOSPITALITY ACTIVITIES ARE MAKING INCREASING USE OF AAFES FAST FOOD CONCEPTS. NAVY BUPERS PARTICIPATES WITH US IN THE WORKERS' COMPENSATION PROGRAM. WE EXPECT THEM TO JOIN OUR 401K PLAN IN THE NEAR FUTURE. NEXCOM IS PARTICIPATING IN OUR 401K PLAN.

VIII. CONCLUSION

MARINE CORPS MWR IS ABOUT PEOPLE. PEOPLE WHO MAKE A DECISION TO DEDICATE THEIR LIVES AND CAREERS TO DEFENDING THEIR COUNTRY. WE ARE VERY CONSCIOUS OF THIS FACT AS WE WORK TO

DELIVER TO THEM THE SERVICES AND PROGRAMS THEY DESERVE IN FACILITIES AND ENVIRONMENTS THEY FIND ENJOYABLE AND UPLIFTING. I BELIEVE THAT MY REPORT TO YOU TODAY HAS SHOWN US TO BE GOOD STEWARDS OF THE TRUST PLACED IN US TO DO RIGHT BY MARINES. WE HAVE THE PROGRAMS, THE FACILITIES, AND MOST OF ALL, THE PEOPLE TO MAKE A DIFFERENCE IN MARINES' LIVES.

SUBJECT TO ANY QUESTIONS YOU MAY HAVE, THIS CONCLUDES MY REMARKS.

Mr. MCHUGH. Thank you, General Joy, and the other panel members as well, for your comments.

Captain Bennett, you mentioned the word "stability" and its importance. I assume that applies to all of you. That is a great thing to have. In that regard—and I suspect I know the answer to this, but I want to put it out there for your official response—you heard the first panel discuss with us a great deal about PBO.

Understanding that the recommendation is specifically for DECA, nevertheless, have any of you had the opportunity to discuss this issue? Or has anyone from DOD or anyone associated with this effort come and talked to you to get your input?

General BUNGER. We were given the opportunity to comment generally at our last resale board meeting and, basically, we did not discuss anything more than you have heard here this morning. The details are still not available as far as I know.

Mr. MCHUGH. Seeing as how you bravely stepped forward as a volunteer, I would ask you, what is your initial reaction? Do you have any concerns?

General BUNGER. Well, my initial reaction to Gen. Dick Beale's assessment there, anything that we can do to lower the cost and to ensure that the service member is provided the most efficient operation possible, I certainly would support. Some of the things on the personnel hiring, acquisition, and construction flexibility would definitely be a step in the right direction.

I would have concerns. Obviously, I would be biased, as a seller of goods and services, if that was used as the method of increasing sales—would be to take what we sell now and sell it in the commissary. That would be a too-easy way, I think, to show that maybe efficiencies were gained.

Any time we lose sales to anybody, we are impacting our MWR benefits, and I would object to that.

Mr. MCHUGH. Captain Bennett, any response?

Captain BENNETT. I would agree with General Bunger's comment. The concern, certainly, from our perspective is a change in the master stock assortment of the things that the commissary sells. The grocery business is clearly different than the retail business. I think just shifting the business base does not help the customer.

I do appreciate, though, General Beale's position. As a NAFTE organization, we do not have some of the same restrictions in administrative procedures that they have to follow as an appropriated funded activity.

So, anything that can be done to improve his situation, to allow him to operate that business more efficiently, I would certainly support.

Mr. MCHUGH. General Joy.

General JOY. I echo the comments of the last two speakers in regard to concern about expansion of categories, the sale of categories of merchandise. I think we would object to anything that puts our dividend for MWR at risk.

My major concern about the PBO, assuming that this, in fact, is implemented and it does provide a better service to our patrons, is that there would be an automatic move toward that direction for our exchanges. I would also submit the point that Captain Bennett

was making. Our business is altogether different than the commissary business. We already have a lot of the flexibility that the PBO is touted to provide for the commissary system.

Mr. MCHUGH. Would there, however, be a potential to translate some of the—whatever they may be ultimately—proposed or envisioned flexibility models to all of you? We understand that as a NAF you do have certain freedoms that are not enjoyed by DECA, but are there some things you see that could be implemented on both sides, General Bunker?

General BUNKER. Well, everything he talked about this morning we basically already have, as far as hiring, construction, acquisition. Those kinds of things, as Bruce said, we already enjoy.

Somebody mentioned restrictions on what we sell. Obviously, we would like to see those removed. I understand that the Secretary is submitting a list of those for your approval. And, as he said, we would be very prudent in implementing that lifting of restrictions, but that would be a big help to us.

Mr. MCHUGH. You mentioned, General Bunker, that you did discuss this at the Resale Board meeting. It was also mentioned in the first panel, that if a vote were held it would probably be 6-to-1 in terms of stock assortment. And I suspect that is probably true.

I should have asked this of the first panel, but I did not think about it at the time. Is there a suggestion that somehow the resale board is going to be involved formally in the adoption of PBO? I mean, there will not be any vote on this, whether it is implemented or not, as you understand it, would there?

General BUNKER. Not to my knowledge, sir. It was just an information briefing that was given to the Board.

Mr. MCHUGH. OK.

General BUNKER. I would have to defer to the Secretary on that decision, though.

Mr. MCHUGH. Well, you are right, it is my fault, and I will certainly submit those questions in writing to him.

Captain BENNETT. Yes, and I would share that opinion, Mr. Chairman. And if I could just add one thing, on the issue of stock assortment and the 6-to-1 vote. The issue is greater, I think, than just the erosion of perhaps our business base where, as General Joy indicated, we are concerned about providing dividends. I think we all have a legitimate concern about the commissary benefit.

If space in the commissaries—which is limited, as we all know—is given up to other retail merchandise that is already shown in the exchange, in my mind, that has to take away from the number of food items that can be sold in the commissaries. And we see that as an erosion of the commissary benefit.

Mr. MCHUGH. Did you want to make a further comment, General?

General BUNKER. No, sir.

Mr. MCHUGH. OK. Well, heeding my own admonition at the beginning of this panel, let me yield to Mr. Pickett for any questions he might have.

Mr. PICKETT. Thank you, Mr. Chairman. And I welcome our witnesses here today.

Captain Bennett, I did not notice in your testimony the amount of money out of the \$60 million that the Navy made off of the ex-

change system, how much of that actually went into MWR and how much of it was retained for construction?

Captain BENNETT. I believe Admiral Marsh is going to address that question in the next panel.

Mr. PICKETT. OK.

Captain BENNETT. From the Navy exchange perspective, our capital program is funded with the profits that we make prior to actually making the dividend payment to MWR. MWR has been very supportive of our capital program, and has given us the flexibility to make some of the investments that we had to make in our ADP systems and some of our capital expenditures; taken some pressure off the dividend.

Mr. PICKETT. OK. One of the matters that I inquired about with the previous panel had to do with what is sometimes referred to as just-in-time delivery, or going directly from the vendor onto the shelves, to avoid the cost of warehousing and retransporting stocks. How are the exchange systems handling this issue?

Are you taking advantage of opportunities to avoid having to warehouse products that you can have delivered as needed to your stores?

Captain BENNETT. Most certainly. Wherever that makes good business sense to do that, we do it. In fact, for example beer and soda, we do not warehouse that, to the best of my knowledge, in our distribution centers in CONUS. The vendor provides that support and delivers those products directly to our stores.

We also have many categories of merchandise that we call vendor service merchandise, where the vendors put the fixtures in the stores, monitor the sales of those items, and then resupply those items.

Overseas, it is a little bit different situation. We do warehouse a few more items overseas, obviously, because the support for those items is coming from the States.

Mr. PICKETT. How about in your case, General Bunger?

General BUNGER. Sir, every category is a business decision. We price out what is the best business decision, what is the best price delivered to the store, and we have a mix. Obviously, on soft drinks and beer, the local distribution system has proven to be the most cost effective; but with other categories it is more cost effective to buy them in bulk and distribute them through our distribution centers. So, we look at each category.

You know, we do not have any vested interest in one way or the other. Our objective is to deliver the product at the lowest possible cost, and that is the formula we apply to it all.

Mr. PICKETT. General Joy, do you want to comment?

General JOY. Well, I think you know, Mr. Pickett, we do not have distribution centers.

Mr. PICKETT. I understand.

General JOY. Ours is exclusively—

Mr. PICKETT. I did not mean to cut you off.

General JOY. Yes.

Mr. PICKETT. The other issue I inquired about was this one of licensing or allowing a vendor to place products in your exchanges where the products remain at the cost of the vendor until they are

actually sold. Do you have any of those kinds of licensing arrangements, or whatever you call them, going on?

General BUNGER. We do have some of that. And as we modernize our information systems and everybody has a bar code to look at, we are going more and more to sales-based replenishment; vendor-managed inventory where they come in, as Bruce was talking about, and they manage the inventory. When we have a sales trigger, if we are supposed to have 50 on the shelf and we sell down to 30 or whatever the number might be, then we automatically create a purchase order for the additional amount.

And anything that can reduce cost which involves vendor-managed inventory, which involves sales-based replenishment, we are in favor of and we are exploring wherever we can.

Mr. PICKETT. Captain Bennett.

Captain BENNETT. I would support those same comments. We are doing very similarly. We are not bashful. Whenever a manufacturer or distributor is willing to hold the inventory at his expense until it sells and it certainly works to our advantage, we are willing to work with them to do that.

Mr. PICKETT. Well, do you all, as the sales organizations, initiate these kinds of discussions, or do you wait for the vendor to come in and make the suggestion to you?

Captain BENNETT. It works both ways, sir. There are some commodities that will go to the vendor, especially, in some overseas locations. At smaller locations, we are not sure we want to take the risk of investing in inventories. And, in other cases, the vendors will approach us. A lot of them are more common practices, though, in industry, and we just pick up on those.

Mr. PICKETT. The reason I ask is that I served in the Virginia Legislature, and in the State of Virginia they had State-run package stores. And, I know that in many cases they found it profitable and beneficial to have distributors supply their products—

Captain BENNETT. Yes, sir.

Mr. PICKETT [continuing]. And manage the products on the shelves, and to avoid the cost and other losses associated with the maintenance of inventory and the transportation or retransportation of products from warehouses to stores.

But, for some reason, the economics of what happens there does not seem to apply in the case of AAFES and NEXCOM. And I am curious to know how it is that you feel that you are making more return on your packaged products by warehousing them, as opposed to relying on the local distributors to take care of this for you?

Captain BENNETT. In our situation, in the United States we deal exclusively with distributors for wine and beers. Now, on some distilled spirits, we will take a look at them on a case-by-case basis. And if we can get them from the distiller and warehouse them and then look at our costs associated with warehousing, and if that turns out to be a better price for our customer, then we will do that, as opposed to going through a distributor. But even in that situation, we will give the distributor an opportunity to compete for that business.

And for distilled spirits right now in the Jacksonville and Pearl Harbor regions, distributors supply 100 percent of the items that

we sell in our package stores. In the San Diego region, we warehouse 53 percent, with 47 percent of distilled spirits provided by distributors. In the Norfolk region, we warehouse 60 percent with 40 percent of distilled spirits provided by distributors.

Mr. PICKETT. All right. Thank you.

General Bunker.

General BUNGER. Again, sir, we look at the lowest price delivered to the store. And we have no reservations about going either way, if it is the best business decision. We have looked at the distributors in Virginia, as you know, a couple of times. We have had our auditors look at it. And, in every case, it has come up to be a better business decision to centrally manage that and deliver it ourselves.

If anything changes that would make it a better business decision, that would provide the goods cheaper to our customers, it is exactly what we want to do. You know, our driving force is to make the best business decision.

Mr. PICKETT. Is this one of the areas where you all have investigated the possibility of having the distributors actually provide the inventory for you and avoid you the cost of having to stock?

General BUNGER. Yes, sir. Within Virginia, we have investigated that, had outside auditors come in.

Mr. PICKETT. I have read some of those reports and I do not have much confidence in them, I will tell you. So that is why I am asking the question. You seem to get a different set of numbers, depending on when the question is asked.

And I think it is important that, when there is an opportunity to allow private enterprise to handle these kinds of functions, then that is who should be handling it, and you should not be in a business that is marginally profitable to your organization.

General BUNGER. Sir, we are willing to look at it again if you think the original audits were flawed, or we can have a third party—

Mr. PICKETT. Well, I think you all spent enough money on auditors on that one. I think a little common sense needs to be applied to it. One other question I have has to do with the financing and the credit card operations. Can you all give me a quick summary of where that is, and what kind of losses you are experiencing, and how you feel about that operation as far as your respective organizations are concerned?

General JOY. Sir, we made a business decision to not invest in a major capital investment in regard to infrastructure to set up a DPP program or a credit program. And we chose to out-source to AAFES. We pay them a small fee, a management fee, for handling our program. But they, of course, have the accounts receivable. I will let General Bunker address that.

We are very satisfied with the service we are getting from AAFES. There have been some modifications to the DPP program. I think it is getting better every year, and I think it is a very good program for our patrons.

Mr. PICKETT. Is it paying for itself, as far as your part of the operation is concerned?

General JOY. Very definitely.

Captain BENNETT. That is very true of the NEXCARD program that we have, Mr. Pickett. We do not run that as a profit center,

obviously. We try to run it as a break-even, when you take into consideration the costs associated with carrying receivables and in paying the fee to the credit card processing company. On average, I think we net about \$1 or \$2 million a year from that program.

What the program does for us, is it provides an opportunity for increased sales. And the benefits of the increased sales are not factored into the break-even analysis that we look at when we set the interest rates on our credit card program.

Mr. PICKETT. How much do you have out in credit extensions under the credit card program at any given time, in your most recent review on it?

Captain BENNETT. Our accounts receivable right now for NEXCARD is around \$120 million. Now, we have just changed from a 12-month payback period to a 24-month pay period, and with that extension we would expect those receivables to grow maybe as high as \$170 or \$180 million.

Mr. PICKETT. Thank you.

General BUNGER.

General BUNGER. Sir, we have a pretty big program as far as in-house credit. In fact, it ranks about sixth among privately held retail credit in the country; receivables about \$1.3 billion. And it has been a very successful program for our soldiers and airmen. It allows them cheap credit, especially the younger folks, to start out keeping an apartment with the basics of washers, dryers, and so forth.

We were a bit liberal initially on our credit programs. We had some young folks who used too much credit and got over-extended. We have tightened that up recently. In fact, last month we started with a credit rating program that does a quick check on all of our new customers. And the first 6 weeks experience looks like about a 30-percent rejection rate for requests for credit, based on either they have too much credit now or they have a history of bad credit. So that will greatly reduce our bad debt expense and reduce our delinquencies.

But our delinquencies have been running about national averages with other credit companies. They have been coming down the last couple of months, as far as the active-duty. The active-duty delinquency rate is about 4.9 percent.

Mr. PICKETT. Is the program paying for itself?

General BUNGER. Oh, absolutely.

Mr. PICKETT. The way it is being operated?

General BUNGER. Yes, sir.

Mr. PICKETT. And my final question is, the funding of this \$1.4 billion, you said?

General BUNGER. Yes, sir.

Mr. PICKETT. Is that money borrowed, or how do you get the money to fund that?

General BUNGER. We borrow about \$800 million to \$1 billion, on the average, and we finance the rest from retained earnings.

Mr. PICKETT. So you have almost half a billion dollars invested in those receivables?

General BUNGER. Yes.

Mr. PICKETT. From your own money?

General BUNGER. It varies, of course, but \$400 to \$500 million.

Mr. PICKETT. OK. Thank you very much, and thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

We have been joined by the gentleman from North Carolina, Mr. Jones. Welcome, sir. Are there any questions you might have for some of the panel members?

Mr. JONES. Not at this time, since I missed the presentation.

Mr. MCHUGH. OK. Well, we appreciate that. And we have held the record open for the gentleman's information for written follow-up questions, if he chooses to submit those. We would be pleased to tender them to the panel members.

We have also been joined by the gentleman from Florida, Mr. Scarborough. We welcome the gentleman. Do you have any questions for the panel members?

Mr. SCARBOROUGH. Sure. I have one brief question for the captain. Good morning.

Captain BENNETT. Good morning.

General BUNGER. Good morning, sir.

Mr. SCARBOROUGH. I have a quick question concerning NAS Pensacola, the district which I represent. The Navy, obviously, has no request in this year's construction request for a larger Navy exchange at Pensacola. However, some developments since BRAC 93 and 95 have actually allocated more than 4,000 new students and, I believe, over 1,000 more support personnel at Navy Pensacola.

Clearly, NEXCOM wants to build a larger exchange, but the exchange would be out of cycle. And since DOD, obviously, frowns on out-of-cycle construction requests, the NEXCOM project is not going to be requested.

What NEXCOM would like to do is convert and expand an existing aircraft hanger, and that hangar currently has 24,000 square feet, and NEXCOM would like to add about 15,000 square feet to that. The existing facilities that are on the base right now were actually constructed before Pearl Harbor, and are certainly out of date and inadequate for even the current needs, before we were going to have the increase of 5,000 new personnel at NAS Pensacola.

The new facility, from what I understand, is going to provide a retail sales area, and also a uniform shop, food service, laundry, dry cleaning, as well as other outlets.

What I would like to ask you is, first of all, has this request come up on your radar screen, so to speak? Are you aware of the situation in Pensacola, and are there any plans to actually put in a request for new construction to meet the needs of the incoming students and instructors?

Captain BENNETT. I think the answer is yes to all of those questions. It is on our scope. You are very well informed and you have assessed the situation down there as we have. We saw this requirement coming, and we had hoped to get some BRAC funding for that project. That is why it did not show up in our 1996 submission.

We have been unable to get those BRAC dollars, so we have put it out into our 1997 project call. But we are currently pursuing an out-of-cycle submission. We have not submitted that yet, up

through Navy channels to OSD, but we plan to do that within the next couple of weeks.

We understand the sensitivity of an out-of-cycle submission, and we try to avoid that whenever we can. But I think, in this situation, with the growth of the schools coming in there and the additional 4,000 students showing up as early as January or February 1997, we would like to get started on that project just as quickly as we can.

We are in the design phase now. As you indicated, it is the renovating and expansion of a hangar facility to try to minimize the cost, but it is about a \$4 million project. We feel that if we can get an out-of-cycle approval for that project and get started as early as August of this year, we could have that facility ready to go by the February-March timeframe.

Mr. SCARBOROUGH. Great. If your office could keep in touch with my office and let me know how that is developing.

Captain BENNETT. Sure.

Mr. SCARBOROUGH [continuing]. How the decisionmaking process is developing—

Captain BENNETT. Yes, sir, we certainly will do that.

Mr. SCARBOROUGH. It would be greatly appreciated.

Captain BENNETT. Yes, sir.

Mr. SCARBOROUGH. All right. Thanks a lot.

Captain BENNETT. Thank you.

Mr. SCARBOROUGH. I appreciate it, and I have no further questions.

Mr. MCHUGH. I thank the gentleman.

As a final followup from me, we had in this year's 1996 Defense authorization bill extended authority to create 10 BX marts, located facilities, mostly BRAC affected. What is the status of that program, and how do you see the future on that, General Bunger?

General BUNGER. Well, as you know, we have two BX marts currently operating; one at Fort Worth, formerly Carswell Air Force Base, and one down at Homestead. And we are happy and encouraged with the operation. The BX mart at Carswell is almost to the break-even point as a stand-alone operation. It is difficult to view these. The facilities at Carswell has a BX mart and then a BX, because we have the BX mart which is the former commissary and then across the parking lot we still have a main store BX with the concessions, barbershops, cleaners, and those kinds of things.

Obviously, people come to the BX mart to buy groceries. While they are there, they also get haircuts, drop off clothes at the cleaners, and go to the main store for clothes and some hard goods. So, looking at the two together, at the end of the 2-year period we made a profit of \$72,000. So it is almost a break-even operation, but it is a break-even operation that gets great marks from our customers.

Of course, what we are talking about here is a break-even operation with nonappropriated funds. So, if you were operating a commissary with appropriated funds of 1 or 2 million or whatever it would cost, obviously, the savings to the taxpayer are whatever we would have spent on a commissary. If you look at it for what it saves the taxpayer, it would be saving considerably at Carswell.

Homestead is a bit different. Homestead's buildings, as you know, were blown away, gutted. We thought the air-conditioning and the coolers would be more useful than they were. They stood idle and mildewed for several months. I was down there a few months ago, and we were having trouble with the meat coolers as well as the air-conditioning. The customers were actually having to walk into the big walk-in cold storage box to get their meats and stuff. We now have that fixed, the customers are much more appreciative of it, and the customer base is building every month.

The bottom line is building every month. We hope to be near break-even operation by the end of 1996 on Homestead. It is all in one facility in Homestead, as opposed to several.

Mr. MCHUGH. What about the future? What about the authorization for ten others?

General BUNGER. The future. Each situation is analyzed individually. The Department has some criteria that require an active duty presence at the location, it requires a building to be available for us to move into with little or no expense.

And when the service, Army or Air Force, requests that BX mart, that request comes through OSD. OSD asks us to do the pro formas, looking at the customer matrix to see if we have an active duty presence, to see if we have a customer base in the area to at least generate a break-even operation.

And right now, we are not actively pursuing any others. There are a couple that are under review, but we are not proceeding with any others right now.

Mr. MCHUGH. So you are not interested in having an extension of those 10 to 20 or 30 or whatever, because you are not to that point?

General BUNGER. We are not to that point.

Mr. MCHUGH. All right. Thank you, General.

General BUNGER. Yes, sir.

Mr. MCHUGH. Unless there are some other questions from the Panel members, I will thank you gentlemen for your time and for your being here today. And as I mentioned earlier, if we do submit written questions, we would please ask your attempt to return those within two weeks. We deeply appreciate that.

Yes, Captain Bennett.

Captain BENNETT. Mr. Chairman, if I could just correct one thing I said for Mr. Pickett.

Mr. MCHUGH. Sure.

Captain BENNETT. I indicated that our accounts receivable for NEXCARD were currently about 120, and would go to 180. They are, apparently, at 180, and we would expect them to grow to about 270 with this extension of the payback period from 12 to 24 months.

Mr. PICKETT. Can I follow up on that?

Mr. MCHUGH. Certainly.

Mr. PICKETT. How much of that do you borrow and how much do you fund internally?

Captain BENNETT. Our borrowings at the end of the year were about \$112 million. Part of those borrowings goes toward covering our inventories, and part of those goes toward paying for that outstanding accounts receivable balance. So I would say less than half

is through borrowings, and the other half is financed through equity, retained earnings.

Mr. PICKETT. Thank you.

Mr. MCHUGH. And with that point of information, again, gentlemen, thank you very much. We appreciate your being here, and particularly appreciate your good work on behalf of the men and women in uniform. Thank you.

Captain BENNETT. Thank you, sir.

General BUNGER. Thank you.

General JOY. Thank you.

Mr. MCHUGH. Our third and final panel is comprised of Brig. Gen. John Meyer, who is commander of the Army Community and Family Support Center; Brig. Gen. Patrick Adams, who is Director of Services for the U.S. Air Force; and no stranger to the Panel is Brig. Gen. James Joy, U.S. Marine Corps, retired, the Director of MWR support activity for the U.S. Marine Corps; and Rear Adm. Larry Marsh, Assistant Chief of Navy Personnel for Readiness and Community Support, Bureau of Naval Personnel, U.S. Navy.

Gentlemen, thank you so much for your patience, as well as your presence here this afternoon. We will wait just a second while the aisles clear out and the noise level lowers a touch. We are looking forward to your comments.

As I mentioned earlier, we have a 1 o'clock full committee hearing, so we have about 50 minutes to spend on your very important testimony and the activities that you do. So with that, let me yield to General Meyer to offer his statement this morning.

Welcome, General.

STATEMENT OF BRIG. GEN. JOHN G. MEYER, COMMANDER, ARMY COMMUNITY AND FAMILY SUPPORT CENTER, U.S. ARMY

General MEYER. Thank you, Mr. Chairman. I am pleased to appear again before the panel to update you on the Army's progress in reshaping morale, welfare, and recreation programs. I have submitted by written statement for the record.

Last year, I spoke of the challenges associated with delivering comprehensive MWR programs while simultaneously downsizing the force and adjusting program focus to meet our vision of a more efficient, effective, demand-driven MWR program.

We continue to vigorously pursue economies and efficiencies in the management of our programs: For example, joint service MWR training in the food, beverage, and procurement areas; standardized procurement of certain common supply items; and cooperative procurement programs with other services to maximize cost avoidance.

We doubled the profitability of our club system last year by establishing specific demand-driven programs and adhering to performance-based standards. Our nonappropriated fund subsidy to child development centers is projected to be \$1 million in fiscal year 1996, which represents a \$21 million expense reduction since 1992.

Our Armed Forces recreation centers are enjoying a banner year. Thanks to the support of you, Mr. Chairman, the staff, and this panel, we purchased Shades of Green in Walt Disney World in January 1996. Based on our first month of rent-free operation, it will

generate \$2.8 million profit annually, with an occupancy rate of over 98 percent.

As you are aware, our AFRC operation in Germany closed the hotel in Berchtesgaden and refurbished those in Chiemsee. AFRC-Europe is preparing to offer special package deals to soldiers who will soon be taking rest and relaxation leave, or R&R, from Bosnia.

Our No. 1 priority for this year is the creation of our asset management and privatization office. With the encouragement of this Panel, we are pursuing public-private ventures that will provide quality MWR facilities designed, built, and operated by entrepreneurs, generating some revenue for our installations, while avoiding the major capitalization and maintenance costs. We are currently pursuing projects on three installations. Response by developers to initial advertising has been extremely positive.

MWR support for Bosnia-deployed soldiers and their families is the best planned and executed response to deployments to date. The 25 base camps in theater offer MWR capability above unit level, including fitness equipment, VCR's and TV's, sports equipment, reading materials, and organized activities.

We have 20 formally trained civilian brigade recreation specialists operating centers at seven base camps and overseeing activities at the 18 other camps. USAREUR activated 21 family assistance centers with round-the-clock capability to provide one-stop point of information and assistance for families of deployed soldiers.

The bottom line: The Army used the lessons from Desert Shield and Desert Storm to ensure first-class service to family members, thereby enhancing the readiness of America's Army.

Today, MWR programs bear little resemblance to those of 10 or 15 years ago. Economy, efficiency, and effectiveness are no longer goals, but requirements. Our emphasis in these areas has never been greater, and the fruits of our labor are paying tremendous dividends. This is not to say we are without our challenges, but we have made significant gains and have a game plan to propel quality Army MWR into the 21st century.

Mr. Chairman and members of the panel, thank you again for this opportunity, and I will respond to questions at the appropriate time.

[The prepared statement of General Meyer follows:]

STATEMENT BY
BRIGADIER GENERAL JOHN G. MEYER, JR.
COMMANDER
U.S. ARMY COMMUNITY AND FAMILY SUPPORT CENTER
BEFORE THE
MORALE, WELFARE, AND RECREATION PANEL
COMMITTEE ON NATIONAL SECURITY
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BRIGADIER GENERAL JOHN G. MEYER, JR.
United States Army

Brigadier General John G. Meyer, Jr., is the Commander of the U.S. Army Community and Family Support Center (USACFSC), a field operating agency of the Army's Assistant Chief of Staff for Installation Management (ACSIM). As Commander, he formulates policy and coordinates resources to produce strong community and family support programs throughout the Army, oversees management of the Army Banking and Investment Fund portfolio, and is responsible for the Armed Forces Recreation Centers (Europe, Hawaii, Korea, and Orlando) and the Army Recreation Machine Program. CFSC is a \$1.3 billion business.

General Meyer was born July 22, 1944, in Lexington, KY. He graduated from Florida State University with a Bachelor of Science degree in Criminology and was commissioned through the Army ROTC program in 1967. He earned a Masters of Arts degree in Police Science and Administration from Sam Houston State University in 1975.

The General's early tours include assignments as: Military Police Company Commander at Ft Hood, TX; Military Police Battalion Operations Officer at Ft Meade, MD; Military Police Company Commander in Viet Nam and Ft Gordon, GA; and Chief, Military Police Subjects Committee at the Military Police School at Ft Gordon.

Subsequent tours include serving as an action officer at the U.S. Army Criminal Investigation Command (CIC); aide-de-camp to the Commander of CIC; action officer, Headquarters Department of the Army Deputy Chief of Staff for Personnel; Executive Officer, 385th Military Police Battalion, Stuttgart, Germany; Assistant Secretary of the General Staff, Headquarters Army Europe; and aide-de-camp to the Commander in Chief, U.S. Army Europe.

In 1983, General Meyer returned to Washington, DC, as an action officer in the Directorate of Military Support, Office of the Army Deputy Chief of Staff for Operations. He later served as Military Assistant to the Deputy Under Secretary of the Army. Follow-on tours include: a return to Stuttgart, Germany, as Commander, 385th Military Police Battalion; Executive Officer for the Assistant Secretary of the Army for Installations, Logistics and Environment; Executive Officer for the Under Secretary of the Army; and Commander, 14th Military Police Brigade in Stuttgart.

In 1992, General Meyer became Deputy Director, Military Personnel Management, Office of the Army Chief of Staff for Personnel in Washington. He was named the first Director of the DOD's Base Transition Office in July 1993 where he was responsible for establishing the office executing the on-site coordinator portion of the President's five-part community reinvestment program.

General Meyer's professional education includes completion of the Military Police Officer Basic and Career Course, the Advanced Investigative Management Course, the FBI National Academy, Army Command and General Staff College, Industrial College of the Armed Forces, and the Advanced Management Program at Duke University. He is also the author of Company Command, The Bottom Line; an authoritative leadership book for company commanders published in 1991.

His decorations include the Legion of Merit with two oak leaf clusters, the Bronze Star, the Defense Meritorious Service Medal, the Meritorious Service Medal with two oak leaf clusters, the Army Commendation Medal with three oak leaf clusters and the Department of the Army Staff Identification Badge.

General Meyer is married to the former Mary Townley of Ronceverte, WV. They have two children, Stephanie and J.G.

**STATEMENT BY
BRIGADIER GENERAL JOHN G. MEYER, JR.
COMMANDER, U.S. ARMY COMMUNITY AND FAMILY SUPPORT CENTER
ON MORALE, WELFARE, AND RECREATION (MWR)**

I am honored for the opportunity to appear again before the Panel to update you on our progress effecting general programs and especially economies and efficiencies in the management of Army Morale, Welfare and Recreation programs as you suggested in the Conference Report on the National Defense Act for Fiscal Year 1996. The Army not only increased its own efforts in that regard but is enhancing cooperative efforts with the Department of Defense, our sister Services, and the Army and Air Force Exchange Service.

During the past year we continued along the path we mapped out in the MWR Strategic Vision for the 21st Century and the MWR Strategic Action Plan. These visionary documents keep us on course and sharpen our focus on priority actions integral to a continuous improvement cycle which remains the core of organizational excellence. Specific initiatives within the plan include development and implementation of financial standards, development and testing of alternative program delivery concepts, implementation of a unified resource test based on Congressional guidance, reduction of time and expense required to build nonappropriated fund (NAF) MWR facilities, and consolidation and regionalization of NAF contracting functions.

The following is a capsule view of key MWR issues and initiatives we are working to support America's Army:

MWR Workforce: The Army's 34,712 MWR employees, consisting of 5,595 military and appropriated fund employees and 29,117 nonappropriated employees, deliver effective, quality MWR programs. The Army continues its strong commitment to training and to development of every level of management up through executive and senior positions. Since its establishment in 1987, our training center has trained over 8,600 managers. The Army also conducts installation management courses for General Officers selected to command installations and Colonels selected to command garrisons. Both courses contain significant MWR components which are succeeding in making senior Army leadership aware of their MWR responsibilities and of the business management principles under which these programs operate.

We are also pursuing economies and efficiencies in our training by working with the other Services through the auspices of the DOD Resale Board. Under this initiative, service training coordinators meet on a continuing basis. We agreed to participate in each others courses when they meet our needs rather than develop and deliver new courses. We also identified existing service courses that appear to be similar for further consolidation study. This is an ongoing process that primarily will allow us to avoid duplicating costs in the future, and also will result in some savings in the near term.

Partnering: Army Morale, Welfare, and Recreation, Air Force MWR, and the Army and Air Force Exchange Service (AAFES) are partnering -- working together to find ways to reduce costs and improve responsiveness to patrons. The AAFES Board of Directors recommended

this action as one means to counteract the prospect of declining revenues as the Armed Forces downsize. Among the areas targeted are procurement, construction, needs assessments and patron surveys, amusement machines, business television, personnel, and payroll. AAFES, the Air Force, and Army identified a lead agency for each topic. The lead agency monitors progress and reports results to the AAFES Board of Directors each quarter.

DOD Resale Board: The DOD Resale Board was activated in July 1993 as a forum for the leaders of the resale community to discuss common concerns and work together in cooperative efforts where possible. Last year at Dam Neck, Virginia, this Board developed over forty cooperative initiatives that could improve service, reduce costs, and/or increase revenue. Each member volunteered to lead several initiatives. Key Army MWR initiatives follow: Consolidated Entertainment Booking Office, Joint Recruitment of NAF Management Trainees, DOD-wide Training Consolidation, and a 1-800 Reservation System for Army transient billeting, guest house, and commercial hotel reservations (Lodging Success).

Army-wide Cash Consolidation: From fiscal year 1991 through fiscal year 1995, Army installations executed an aggressive capital reinvestment program which caused aggregate NAF cash balances to decline by 50 percent. In fiscal year 1996, as required by the Fiscal Year 1995 Defense Authorization Act, the Army transferred cash in excess of operating requirements from installation accounts to the centrally controlled Army Morale, Welfare and Recreation Fund (AMWRF). Approximately \$72 million was centralized in the AMWRF to fund only approved capital investment requirements.

Capital Reinvestment Assessment (CRA): In order to continue consolidating cash at the departmental service level and to maximize cash available to fund centrally approved investments; the Army instituted a CRA in fiscal year 1996. Beginning in fiscal year 1996, Army installations are being assessed 2 percent of their gross NAF revenues which is transferred to the AMWRF. This assessment will increase to 3 percent in fiscal year 1997 and the outyears.

Unified Resource Concept (Uniform Funding): The Army is ready to participate in the Uniform Resource Test (Uniform Funding Demonstration) which was included in the language of the 1996 National Defense Authorization Act. This demonstration of the merging of APF and NAF into a single MWR system will result in lower operating costs, increased opportunities for business-like operations, and greater visibility of financial data. It provides a great opportunity for MWR to take the lead in improving service to customers in the most efficient and economical manner possible.

Property Insurance Program: The Panel previously expressed concern regarding disaster relief for military bases for losses caused by natural disasters. The Army's NAF Property Insurance Program provides comprehensive coverage for buildings and contents purchased with NAF. We are currently insuring over \$1 billion in NAF buildings and contents for all-risk coverage. Basic to this coverage is a commercial policy which provides re-insurance for the Army in the event of a catastrophic loss. We self-insure the first \$250 thousand of any loss. This coverage includes our highest value locations at the Hale Koa Hotel in Hawaii, the Dragon Hill Lodge in Korea, and the Shades of Green on Walt Disney World in Orlando, Florida. We are able to provide this to the installations at a very reasonable cost. We believe that this insurance program addresses the Panel's concern and meets its intent in providing reimbursement for catastrophic losses.

Standardization and Consolidation Acquisition Program: The Army instituted the Standardization and Consolidation Acquisition Program which was formulated in conjunction with a Memorandum of Agreement (MOA) signed with the Air Force in August 1994. The MOA enables the Army and Air Force to capitalize on consolidated buys, increase negotiation leverage, and promote acquisition planning by establishing a Purchase Review Board (PRB) to select supplies and services that are good candidates for standardization and consolidation. The PRB process keeps MACOMs and installations actively involved in the program, provides a medium for continuous interface with installations, results in cost savings to MWR, and meets the goal of superior customer service. For an example of dollar savings realized under this program, the Army bought 26,500 dozen range golf balls at a cost of \$4.85 per dozen for a savings of \$56,975.

Information Management: In October 1995, the Community and Family Support Center (CFSC) began the process of modernizing our information management infrastructure. This initiative was a response to the Army MWR Strategic Action Plan and focused on key functional areas. We completed the fielding of the Time, Labor Management System (TLMS) module. This module includes workforce scheduling, time and attendance, and many other tools for the MWR manager. This module reduced the cost of producing the individual paycheck from \$2.15 to \$1.65. Other modules being fielded include, Financial Management Budget System (FMBS), Child Development Services Automated Management System (CDSAMS), Recreational Program Tracking (Rectrac), and Golf Program Tracking (Golftrac). All of these modules include hardware and training. The MWR-MIS modules provide significant benefits including establishing standards; reducing time requirements; enhancing decision making processes; and providing a Central Demographics database that enhances marketing capabilities. The modules are flexible enough to allow proper management planning which improves services and monitors programs/activities. The modules are portable and compatible throughout the Army, preventing duplication and unnecessary peripheral funding.

Army MWR Leisure Needs Survey: The first cycle of an Army-wide MWR Leisure Needs Survey process is complete. The 88,885 individuals who responded represent 86 installations and four categories of authorized MWR patrons: active duty, active duty spouses, Department of Defense civilians, and retirees. All three report levels (Army consolidated, MACOM, and installation) contain appropriate aggregate data which serves as an excellent comparison tool for managers. All reports contain the following information: an overview; community and family profiles; activity preferences; strategic marketing performance grids (for Army facilities); facility evaluation (quality and customer usage); facility and activity customer profiles; and usage/participation data. The survey data is a management tool for use in daily operations planning, business planning, marketing planning and input to the five-year program planning process. Each installation report covers a wide range of attitudinal, behavioral, and preferential data of patrons toward leisure activities, MWR services, and facilities on the installation. The Army report contains similar data for the Army in general. Combined with other planning factors detailed in the Strategic Business Planning Guidebook, this data becomes a powerful management tool.

Asset Management and Privatization: Army leadership shares Congressional and DOD belief that public/private ventures and cooperation with local communities hold great potential for maximizing the potential of MWR programs and reducing the requirement for capital outlays. The Army instituted the MWR Asset Management and Privatization program, wherein

installation commanders have the opportunity to leverage and maximize value of installation real estate assets. Maximization of assets is achieved through the process of privatization, for development of needed MWR services without NAF capital expenditure, while providing an equitable income stream to the installation MWR fund. The goals of this program include optimizing installation assets, creating value resources and eliminating extraneous requirements. In exchange for access to government real estate and creation of MWR business opportunities, the Army intends to enter into cooperative arrangements with developers and local communities.

This program is the number one priority for the Community and Family Support Center and the first three projects, in order of priority, include the Fort Story Golf Course, the Fort Sill Family Entertainment Center, and the Fort Belvoir Marina. These projects are in various stages of development, with advertisements announcing the projects to the development community placed in local and national newspapers. Industry response has been tremendous. Draft solicitation documents are about to be forwarded to all interested parties for review and comment on Fort Story, soon to be followed by Fort Sill and Fort Belvoir.

Business Programs: In fiscal year 1995, numerous initiatives were taken to increase revenues and operate business programs more efficiently. These efforts resulted in Category C MWR business programs contributing \$32 million net income before depreciation (NIBD) in support of MWR worldwide. This was a slight increase from the previous year. This is attributable to managers worldwide who improved customer service, curtailed non-demand driven programs, and reduced operating costs.

Prime Vendor: The Joint Services Prime Vendor Program was developed as an initiative to reduce food and food-related product costs, reduce procurement overhead, and upgrade quality of food and foodservice items in MWR activities. The combined annual purchases of the 154 participating installations total \$53.6 million. Contract-to-date purchases are \$165 million with computed savings of \$18 million. We plan to award the next generation contract in May 1996. The solicitation has generated significantly more competition than the original Prime Vendor contract.

Clubs: Army clubs continue to operate more economically and efficiently and show improvement in financial performance and their ability to provide demand-driven programs for soldiers and their families. This year, clubs earned NIBD of \$4.9 million, compared to fiscal year 1994 NIBD of \$2.3 million. The NIBD has been adjusted to exclude base closure costs of \$1.9 million in fiscal year 1994 and \$1.3 million in fiscal year 1995. The \$2.6 million club turnaround was caused by continuing management efforts to reduce costs, improve food quality and service, and provide demand-driven programs. This turnaround is even more dramatic when we consider that total revenue during the period decreased \$13.4 million. The prime vendor program contributed to the turnaround through product savings and a rebate initiative. In addition, the MWR BOD continued the requirement for MACOMs to report unprofitable clubs and justify losing operations as mission essential. This sent a powerful message to the field regarding the commitment to improve the efficiency of club operations.

Food, Beverage and Entertainment (FB&E) Assessments: Army-wide, food and beverage sales represent 25 percent of MWR revenue. A major initiative to improve the efficiency of FB&E programs, meet market demands, and capture more of this food and beverage revenue involves the conducting of FB&E assessments at selected Army installations. These assessments are a cooperative effort between MWR and AAFES. The goal is to identify the

installation's key market opportunities for FB&E services (to include AAFES), suggest a restructuring of the current FB&E services to capitalize on these opportunities, and develop a realistic plan for implementing the required changes. To date, 11 installations representing approximately 250 food and beverage facilities were reviewed, and more than 7500 active duty, DOD civilians and retirees were surveyed. Results from assessments conducted to date have been exceptional. Included in these assessments was a joint services study to assess the FB&E operations of the Army, Navy, and Marine Corps installations on the island of Oahu, Hawaii.

We will continue to offer traditional club programs where there is a market demand. However, the FB&E assessments identified the need to offer market-driven programs such as theme restaurants, quick-service food programs, high-energy nightclubs, and sports bars. CFSC developed a variety of theme concepts patterned after nationally recognized casual and family style civilian sector restaurants. Implementation of these standardized restaurant packages helps local management operate more efficiently and return increased revenues to the fund. The concepts include offerings ranging from an Italian family-style restaurant, to the ultimate interactive sports recreation facility featuring big screen TV's with continuous broadcasts of live sporting events. The goal is to provide the soldier and family member with the FB&E activities that respond to demand.

Shades of Green (AFRC-Orlando): Shades of Green completed its first full fiscal year of operations in September 1995. Shades of Green would have made a profit of \$2.4 million before depreciation were it not for rent payments. The purchase of Shades of Green was executed on January 12, 1996, at which time rent payments ceased. February 1996 occupancy was 98.8 percent. This performance exceeded budget slightly, and confirms the long-term financial viability of the operation.

Hale Koa/Fort DeRussy: Construction of the new hotel tower and re-development of Fort DeRussy, Hawaii were completed in the first quarter of fiscal year 1996. With the addition of 396 rooms to meet previously unmet demand, the Hale Koa achieved NIBD of \$675 thousand in February 1996, the highest it has ever reported. Occupancy for the year-to-date is 91 percent, and February occupancy was 99 percent.

Armed Forces Recreation Center - Europe (AFRC-E): AFRC-E achieved its end state with the closure of Berchtesgaden operations and the re-opening of Chiemsee operations. AFRC-E operations now comprise four facilities in Garmisch and Chiemsee. The changing operating configuration resulted in a break-even year at AFRC-E in fiscal year 1995. As AFRC-E operations achieve more stability, greater profitability is projected. The Rest and Recuperation (R&R) program for the troops in Bosnia is scheduled to commence at AFRC-E on April 8, 1996. Emphasis will shift to the soldier, but other guests will also be accommodated through arrangements with German hotels.

Thayer Hotel Privatization: In compliance with House National Security Committee (HNSC) and Senate Armed Services Committee (SASC) guidance, the Army is proceeding with our plan to have a private developer renovate, expand, and operate the Thayer Hotel at West Point, New York. A proposed contract has been finalized and presented to the developer who must now secure financing prior to final contract award. The Army's maximum NAF expense or liability associated with this project will not exceed \$25 million as directed by the HNSC and SASC.

Army Recreation: The Army's new recreation delivery system combines partnering with communities, privatization, and self-delivered programs to broaden the scope of services offered. The pilot is midway through the test phase at three installations. The new system focuses on reducing infrastructure, delivering customer-driven services, and expanding the availability of recreation and leisure programming. The test moves from traditional facility-based programming to delivery of services for the customers' convenience. The focus changes from "opening the front door for customer use" to actively programming services, classes, and activities that make America's Army participants.

BOSS Program: BOSS is the acronym for Better Opportunities for Single Soldiers. The program was started in 1989 to address the MWR needs and to expand recreational program opportunities for single soldiers. In 1991 the Chief of Staff, Army, expanded the program into every aspect of the soldier's life. BOSS provides a vehicle for input and feedback between the single soldier and unaccompanied soldier, the installation staff, and the command. Today the program is implemented at all installations with garrison single soldier populations greater than 50. Several installations have full-time staff devoted to the BOSS program. A few of their responsibilities include involvement in: newcomer briefings, follow-up on BOSS issues such as work orders, participation on installation councils such as AAFES, commissary, barracks, health promotion, and other forums. The BOSS program plans and assists with recreational events. Popular events include trips, concerts, and sports-related activities. The BOSS program is heavily involved in community service and volunteerism. Some of the areas in which BOSS participates include: Special Olympics, Big Brother/Big Sister programs, tutoring and coaching youth, and visiting Veterans' Homes.

Child Development and Youth Programs: This program is an Army "success" story because of the tremendous strides made in improving the quality of care, increasing the availability, and maintaining affordable fees for Army families. One hundred and fourteen (114 or 73 percent) of our child development centers are now nationally accredited -- a 34 percent increase over last year. This national benchmark of quality is an indication of our support of this valuable service for families. The Army has been working hard on a financial management turnaround plan to reduce the NAF subsidy to Child Development Center (CDC) programs. The NAF subsidy was reduced from a high of \$22.3 million in fiscal year 1992 to only \$4 million in fiscal year 1995. Based on first quarter, it appears the total fiscal year 1996 CDC NAF subsidy will be less than \$1 million, a \$21 million improvement! The special lower fee for families earning less than \$18.5 thousand annually is working well for our families most in need. We are also reviewing youth programs to address current needs, including out-of-school options during parental duty hours, and to counter the increasing at-risk behaviors found not only in Army youth, but throughout society.

Army Family Team Building (AFTB): AFTB is a sequential, progressive, training program using a team of volunteers and some paid staff to train active, Reserve Component soldiers, civilians, and family members on skills that promote self-reliance; promote an understanding of Army institutions and services; and contribute to a successful Army family. The program contributes to overall readiness and is particularly valuable during deployments because Army families are stronger in every regard. AFTB is making a positive, beneficial difference for everyone.

Army Community Service (ACS) Restructuring: ACS provides programs and services to address frequent unit deployments and contingency operations and soldiers' time away from home station. Emphasis is to be proactive to ensure the readiness of the individual, family,

and community before mobilization and deployment. The programs and services provided by ACS serve as the Army's safety net for soldiers and families during deployment. ACS embarked on a major restructuring based on customer surveys and family research. This new strategic plan recognizes commanders as the primary customer, with ACS providing assistance in maintaining readiness of individuals, families, and communities. The plan establishes a paradigm shift to prevention, training and education, and information and referral services. ACS is reorienting services to military units while maintaining a core staff in ACS Centers. Mobilization and deployment assistance will continue to be emphasized.

Army Family Action Plan (AFAP): AFAP is a tremendous grass-roots program to resolve quality of life issues. It is a continuing success story. AFAP is a bottom-up review of all programs throughout the force and serves as a decision-making tool for Army leadership by identifying and validating key factors that impact readiness and retention. It offers members of America's Army a mechanism through which they can express their quality of life concerns, be heard, and make a difference. Since the first AFAP conference in 1983, 260 issues have been resolved, resulting in 44 pieces of legislation, 103 new or revised policies, and 105 new or improved programs or services. Top issues center around entitlements and medical issues. Youth and family member education, and employment benefits and opportunities are also primary areas of concern to the Army family. Increasingly, AFAP issues promote processes that foster self-reliance. Creative, innovative solutions result in low-cost, high pay-off issues that strengthen the Army community.

Bosnia (MWR Program Support for Deployed Soldiers and their Families): The Army's primary operational focus in MWR is currently on Bosnia, for both deployed soldiers and their families. Operation Joint Endeavor is reaping the benefits of lessons learned from intense study of problems encountered during Operation Desert Shield/Desert Storm (DS/DS).

Army doctrine incorporated its installation civilian recreation professional cadre into the solution. Formally trained Brigade Recreation Specialists (BRS) are designated to augment major deployable units and deploy in support of the unit as soon as conditions permit. Twenty BRS are currently deployed in the theater. They train deploying unit personnel in the use of recreation kits and to operate unit and self-directed activities. Additional personnel have been trained and will augment and replace the current cadre upon their rotation. USAREUR planning incorporated MWR from the outset, and is establishing operations as logistics allow. Twenty-five sites offer MWR capability above unit level, including fitness equipment, VCR/television, table tennis, billiards, board games, reading materials, and organized activities.

The Army knows that deployed soldiers' abilities to focus on mission is enhanced when the soldiers are secure in the welfare of their families. Lessons learned from DS/DS caused the Army to implement a broad umbrella of interlocking support mechanisms for families. They include:

Rear Detachment Training: The "unit" is the Army to most soldiers. The potential of the rear detachment to provide a link to the deployed soldier was identified in DS/DS. This factor is considered in the selection of top-notch rear detachment commanders. Approximately 270 rear detachment personnel in USAREUR received formal training on roles, responsibilities, and resources available to assist in supporting families.

Family Support Groups (FSG): Families of deployed soldiers are encouraged to participate in the unit FSG. A Family Support Group is a company or battalion affiliated organization of officers, enlisted soldiers, and family members that use volunteers to provide social and emotional support, outreach services, and information to family members prior to, during, and in the immediate aftermath of family separations. The linkage to the rear detachment is automatic.

Family Assistance Centers (FAC): A FAC is a one-stop central point for information and services for families of deployed soldiers. It is the Army's professional piece of the umbrella. Located within the FAC are representatives from ACS, I.D. cards, Dependent Eligibility Enrollment Reporting System (DEERS), CHAMPUS, finance, legal, and Red Cross. Depending on the needs of the community, more agencies can and are usually included in the FAC. USAREUR activated 21 FACs in support of Operation Joint Endeavor. Each has 24-hour-a-day capability.

Operation Resources for Educating About Deployment and You (READY): Operation READY is a library of training resource materials. The materials are designed to serve as mobilization/deployment training and reference materials for commanders, ACS, Reserve Components Family Program staff and volunteers, FSGs, unit leaders, rear detachment personnel, soldiers and family members. Trainers with pre-developed kits trained USAREUR personnel before deployment commenced. An exercise proved that all USAREUR FACs were prepared and ready prior to deployment.

The Army of the twenty-first century will be the most deployed Army in history. The support of the soldiers and families critical to those deployments will continue to be the cornerstone of our doctrine, planning, training, and resourcing.

CONCLUSION

Today's Army MWR programs bear little resemblance to our programs of ten or fifteen years ago. In recent years we examined MWR traditions and practices -- programs, funding methodologies, management structures, and delivery systems -- and discarded those that no longer make sense or cannot be justified in today's restricted resource environment. Those programs and practices we retained underwent intense scrutiny to ensure they pass the test of customer focus and sound business, and provide a quality service to America's Army.

Economy, efficiency, and effectiveness have been Army MWR goals for several years. However, our emphasis on these areas has never been greater and the fruits of our labor are paying tremendous dividends. This is not to say we are without our challenges. It simply says we have made significant gains and have a game plan to propel quality Army MWR into the twenty-first century.

America's Army thanks you for your continued interest and support for MWR programs.

Mr. McHUGH. Thank you very much, General Meyer.
Next, we have Brig. Gen. Patrick Adams.

STATEMENT OF BRIG. GEN. PATRICK O. ADAMS, DIRECTOR OF SERVICES, U.S. AIR FORCE

General ADAMS. Thank you, Mr. Chairman, and members of the MWR panel, for giving us the opportunity to bring you up to date on your Air Force's MWR program.

A lot has happened since our last opportunity to address the panel. Although we have substantially reduced personnel, bases, and operational units since the end of the cold war, our level of involvement throughout the world has certainly not diminished. World events and national security decisions are driving an operations tempo and a personnel tempo that impact every aspect of Air Force life.

The Air Force is committed to supporting these operations, and our leadership is working hard to reduce the resulting strains on our people. Because the Air Force services organization has a two-fold responsibility, for combat support, as well as community service, Air Force MWR operating tempo is high.

Our primary role is providing combat support to war-fighting commanders. We presently have Air Force MWR personnel supporting nine different operations, including tent cities in Turkey, Italy, and Croatia. We are very proud of the job these young men and women are doing, and equally proud of those who pick up extra duties at home to sustain the community service so essential to maintaining Air Force quality of life.

The Secretary and the Air Force Chief of Staff are clearly aware of the increased stress on the force, and have directed a strategy that focuses on the entire spectrum of quality of life for our people.

Morale, welfare, and recreation is a cornerstone of this strategy, serving the needs of deployed troops, as well as those who sustain the Air Force mission and families at home.

During 1995, General Fogleman ordered a quality of life survey of all Air Force active duty members. From this survey, we confirmed that our people consider fitness, child development, and libraries, the three most important aspects of our MWR programs.

We placed great emphasis during the past year on current and future needs of Air Force people, and we established priorities that will greatly enhance our community's quality of life.

Priority 1 is improving fitness programs. Customers want increased hours, modern facilities, and better equipment. We are working to deliver them.

Child development remains a clear priority. Customer demand is nearly twice our current capacity. Because of your strong support, we have come a long, long way, but we are still short in safe, dependable, affordable care for many of our members' children. We are working to deliver more.

We want to continue to provide programs that target at-risk youth. We ask for your support to help us make youth counselors available to productively mold our young people. This is a proven program that is extremely important for Air Force communities. We need your help to deliver here.

Now, let me return to our combat support role. As I said earlier, our primary customer is a war-fighting commander. We are making numerous improvements in our readiness program to maintain quality of life for our deployed personnel.

We are increasing the living space for individuals in tent cities to improve living conditions. We just completed field trials on a new initial deployment kitchen that will provide hot meals from day one of future deployments.

We are developing a self-contained mobile fitness center to give our deployed troops better fitness activities. And to broaden our deployable MWR capability, we are exploring the use of experienced and talented Air Force civilian employees at deployed locations.

This will do two things: First, it will provide measured relief to our highly tasked military personnel, and second, it should result in better recreation and off-duty activities for our troops.

We continue to look for ways to operate our business activities smarter, cheaper, and better. We are engaged in several cooperative initiatives with the other services that will reduce duplication and lower costs. For example, the Air Force nonappropriated fund purchasing office is expanding its essential products program to include expendable recreation equipment. Our sister services participate in funding and in purchasing agreements.

When we corporately purchase under a single contract, we increase our contracting leverage and create substantial savings for all MWR programs.

We also cooperate with other services and agencies to train MWR personnel. We enjoy substantial savings by using AAFES business television to broadcast our training and information to more than 100 locations Air Force-wide. And we are providing training to improve food and beverage operations in Air Force and sister service clubs and snack bars through our performance improvement center at Randolph Air Force Base, TX.

All of these cooperative efforts help stretch resources, increase consistency across the services, and ensure continuation of high-quality programs. We will continue to look for efficiencies and better ways of doing business.

Air Force leadership remains committed to robust quality of life programs for our Air Force personnel. At all levels, commanders fully support our MWR programs while exercising careful stewardship of taxpayer and nonappropriated dollars.

We appreciate the MWR Panel's continued support and guidance to sustain our programs as an important element of Air Force quality of life, and as an essential component of combat effectiveness.

Thank you for this opportunity to update you on our programs and initiatives that support the Air Force mission.

Mr. MCHUGH. Thank you, General Adams.

Next—as I said in my opening comments, no stranger to this room this morning, nor to this panel at any time—General Joy.

General, welcome again.

**STATEMENT OF BRIG. GEN. JAMES R. JOY, USMC (RET.),
DIRECTOR, MWR SUPPORT ACTIVITY, U.S. MARINE CORPS**

General JOY. Thank you, Mr. Chairman.

Sir, to continue in regard to my comments on capitalization, we, likewise, have a very strong recapitalization program for the rest of MWR beyond exchanges. The total of exchange and MWR capitalization program in 1995 is \$50 million; in 1996, \$40 million.

I would point out those are watershed years for us, largely as a result of the cash-sweep of excess cash that we swept from our commands over the last couple of years as a result of a direction from your committee.

The next point I would like to make has to do with resourcing. This panel has heard me talk for several years about the positive appropriated funds that we had in Marine Corps MWR, and the fact that we were using a lot of our NAF revenues to pay the taxpayers' bill.

I am happy to report that in the last 2 years we have seen a major turnaround in that. It started in fiscal 1995, when the Secretary of Defense recognized our plight. And with the support of this committee, we received a \$10 million plus-up in our appropriated fund account.

That was a major assist. However, the real good news is POM 1996 and beyond. And the success there has been two-fold. First off, we were successful in achieving the approval of a POM 1996 initiative of \$20 million. On top of that, the Secretary of Defense, in his quality of life plus-up has provided us \$20 to \$22 million a year, depending on which year you look at throughout the POM.

So what I am telling you is, compared to the baseline of fiscal 1994, if you look at 1996, a plus-up of \$42 million—a watershed time in the history of the Marine Corps MWR.

Now, what are we doing with that money? We have several surveys. Like General Adams' findings, our troops and our patrons are telling us they are very interested in fitness centers. Fitness centers are the highest priority. They are also interested in libraries. They are interested in recreation centers and rec rooms. And we are giving priority attention to sprucing up those facilities and buying new equipment with that plus-up money.

We are also using a substantial portion of the money to convert nonappropriated fund billets that we have been paying with NAF dollars, to appropriated fund billets paid, rightly so, by taxpayer dollars.

Sir, the last thing I would mention is our exchange efforts. We are looking at cooperative initiatives with the other services, and we are very proud of the support and the cooperation we are getting from the other services.

A couple of examples: The Army club design team has been working with us for several years, helping us design our clubs. In fact, in 1995 we built the Army's club of the future, a tri-modular club down at Quantico, VA. We actually built the Army's club of the future before the Army was able to build it. They had a program for a base that was closed in Europe.

This year, they are helping us design a club at Twenty-nine Palms, CA, and they are going to build and design a club for us at Yuma, AZ. This will be the first experience working with the Army to actually build this club.

The other very successful cooperative program we have had with the Army is, we have turned our slot or game machine program in

the Far East over to the Army. The Army is actually administering our gaming machine program on Okinawa and mainland Japan.

A couple of years ago, we were faced with a \$4 million capital investment to replace our aged inventory in machines. We turned the program over to the Army. They replaced our machines, and it has resulted in a substantial increase in revenues.

The last point I would make is, we have several cooperative initiatives with the Navy, the Navy MWR as well as Navy exchange. For example, Navy MWR and we are cooperating in the administration of our workers compensation program. Navy exchange participates in our 401K program. And we understand that Navy MWR is currently considering participation in our 401K program.

Sir, I will close now, and be happy to answer any questions.

Mr. McHUGH. Thank you, General.

The old saying: Last, but certainly not least, Rear Admiral Larry Marsh.

Admiral Marsh, please proceed.

STATEMENT OF REAR ADM. LARRY R. MARSH, ASSISTANT CHIEF OF NAVAL PERSONNEL, READINESS AND COMMUNITY SUPPORT, BUREAU OF NAVAL PERSONNEL, U.S. NAVY

Admiral MARSH. Thank you very much, Mr. Chairman. And greetings to members of the oversight panel.

It is, indeed, my pleasure to appear before you today to discuss the Navy's morale, welfare, and recreation program. And like General Meyer and General Joy, I am pleased to be here yet another year.

Last year, I spoke to you about the importance of MWR to our sailors as a retention and a readiness multiplier. Since that time, there has been much discussion in the Department of the Navy on what more we can do to enhance the quality of life of our sailors via our MWR programs.

In conjunction with the Marine Corps, the Navy has developed a comprehensive quality of life assessment on MWR operations, and clearly determined the direction we need to take for the future.

Central to this planning effort is the continued major recapitalization of our nonappropriated fund assets. I am happy to report that in fiscal year 1997 the Navy MWR program will present a major construction program in excess of \$15 million per year.

Although the Navy still believes the cost of ownership requires top priority be given to daily corps operations, as well as keeping renovation and repair backlogs declining, we are fully committed to working down the major NAF construction backlog over the next decade.

The appropriated fund support increase that began in fiscal year 1994 for us is essential to the success of our MWR program. That \$65 million plus-up took Navy about halfway to fully meeting baseline funding for our mission essential, or category A, and community support, or category B, programs.

I am now very hopeful that POM 1998 will further close the gap in appropriated fund shortfalls which have historically necessitated Navy spending NAF on daily operations, vice major construction.

Over the past 3 years, Navy MWR has reduced the need to use Navy exchange profits for daily operations, by a factor of three.

This has resulted in minor construction and repair steadily rising to approximately \$40 million per year over that same period.

We plan to continue in this trend, so that these NAF funds which were formerly used to subsidize MWR operations can be dedicated instead to capitalization needs.

Navy MWR has completed the base realignment and closure, or the BRAC, process but there is still much left to do. In addition to absorbing some base shutdown costs, Navy is challenged to improve or expand MWR services at those bases gaining Navy members as a result of BRAC. Earlier we mentioned Pensacola.

We are committed to our mission essential and community support core programs of the same quality and relative availability throughout the entire world. Equity of program delivery throughout the Navy is a cornerstone of our POM strategy and NAF construction program.

We will achieve this equity by leveling resource allocations by region, vice individual commands; by pursuing the enlightened use of outsourcing and cooperative efforts with the other services and the local community; and by basing our MWR programs on common metrics and standards Navy-wide.

Navy MWR has several major initiatives underway, but none are more important than our enhancement of shipboard physical fitness, recreation, and learning resource programs. In fiscal year 1997, Navy MWR will completely upgrade its support of the entire fleet in these three areas.

Over \$22 million worth of new fitness equipment, computers, and recreation gear will be provided to our fleet units in this coming fiscal year. Additional APF funds have been allocated in the out-years to maintain central life-cycle maintenance. This initiative is further evidence of the Navy's commitment to quality of life for our sailors through MWR programs, no matter where they may be serving.

I am very much encouraged by congressional endorsement of the unified resource test which begins in fiscal year 1997, whereby APF resources are converted to use as NAF in support of mission essential and community support programs. This new financial tool will potentially resolve the resource allocation impediments Navy MWR programs have had since the loss of the APF reimbursement authority in 1991. We firmly believe the cost of doing business will be reduced, and the quantity and quality of MWR services should improve markedly.

The central theme of our MWR management focus is on business-based actions. This is to achieve efficiencies as we downsize operations to accommodate force reductions and more efficient operations.

For example, Navy has continued to partner with the other services with cooperative ventures, as well as pursue avoidance of duplication of capabilities. My other members in the Panel have mentioned several already. Navy has much success conducting training for, and receiving training from, the other services.

For example, we have recently started using AAFES printing services as the first choice of Navy MWR. As General Joy mentioned, we use the Marine Corps workers compensation claim serv-

ice. And we use the Air Force nonappropriated funds procurement office as a long-term service provider.

The Navy also believes the future lies with forming mutually beneficial partnerships with the community and avoiding duplication of services whenever possible. Navy MWR continues to be very conscious of the need to manage sailors' dollars wisely. In this era where exchange profits have many competing potential uses, we are constantly trying to streamline overhead costs to put the maximum amount of dollars to direct program delivery for high return on investment projects.

If I may interject for Congressman Pickett, and answer your question from a previous panel, we received about \$55 million in fiscal year 1995 from the Navy exchange, MWR programs in the form of dividends.

In closing, it is my personal assessment that Navy MWR is in the best shape in years—in the best shape to weather the challenges facing all of the Department of Defense, as we balance the need to keep quality of life high on the priority list, while operating in a difficult resource environment in both the NAF and APF areas.

Mr. Chairman, I again thank you and the panel for the continuing support that you have given to Navy MWR. This concludes my remarks, sir.

[The prepared statement of Admiral Marsh follows:]

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HOUSE OF REPRESENTATIVES

STATEMENT OF
REAR ADMIRAL LARRY R. MARSH, U. S. NAVY
ASSISTANT CHIEF OF NAVAL PERSONNEL
FOR PERSONAL READINESS AND COMMUNITY SUPPORT
BEFORE THE
SPECIAL OVERSIGHT PANEL
OF THE
HOUSE NATIONAL SECURITY COMMITTEE
ON
QUALITY OF LIFE, HOUSING, MORALE, WELFARE AND RECREATION,
EXCHANGES AND COMMISSARIES
27 MARCH 1996

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THE COMMITTEE ON NATIONAL SECURITY
HOUSE OF REPRESENTATIVES

REAR ADMIRAL LARRY ROY MARSH UNITED STATES NAVY

Rear Admiral Marsh is native of Chicago and the son of Mr. and Mrs. Malcolm E. Marsh. He graduated from the United States Naval Academy in June 1963 and immediately entered nuclear power and submarine training. In February 1965, he reported to his first submarine, USS CUBERA (SS 347), serving on board as Assistant Engineer and Weapons Officer until July 1966. He was then assigned to USS FLASHER (SSN 613), where he served as Supply Officer and Damage Control Assistant.

In 1967, Rear Admiral Marsh was selected as a Navy candidate for a postgraduate Olmstead Scholarship under cognizance of the Department of Defense. From 1968 until 1970 he studied German, Political Science, and International Relations at American University in Washington, DC and the University of Munich in West Germany. In August 1970, he reported to USS BILLFISH (SSN 676) as Navigator where he served until December 1973. In April 1974, following advanced training, he reported aboard USS CASSIMIR PULASKI (SSBN 633)(GOLD) as Executive Officer. In January 1977, he entered submarine Prospective Commanding Officer training. He then commanded USS WILL ROGERS (SSBN 659)(GOLD) from July 1977 to March 1981.

Following command, Rear Admiral Marsh served as Head, Submarine Nuclear Power Branch in the Naval Military Personnel Command. In August 1983, he was selected to serve on the Chief of Naval Operations Strategic Studies Group at the Naval War College. In June 1984, he reported to the Pentagon where he served as Executive Assistant to the Director, Naval Warfare. In June 1986, Rear Admiral Marsh assumed command of Submarine Squadron TWO in New London, Connecticut, where he served until April 1987 when he was selected for assignment as Chief of Staff, Commander Submarine Force, U.S. Atlantic Fleet in Norfolk, Virginia. In December 1988, he was selected for promotion to Rear Admiral (Lower Half), and in March 1989, he was assigned as the Director, Program Resource Appraisal division on the Staff of the Chief of Naval Operations.

Rear Admiral Marsh relieved as Commander, Submarine Group NINE and Commander, Naval Base Seattle in September 1990. He was selected for promotion to Rear Admiral (Upper Half) in March 1992; and, in July 1992, he reported as Director, Office of Program Appraisal in the Office of the Secretary of the Navy where he served until May 1994. At that time he was reassigned to his current position as Assistant Chief of Naval Personnel for Personal Readiness and Community Support.

Rear Admiral Marsh is married to former Barbara Ann Rhea of Baltimore, Maryland.

I. INTRODUCTION

Mr. Chairman, members of the subcommittee, thank you for this opportunity to provide you with an update on the Navy's MWR Program. My remarks will provide details on MWR's current program, capitalization and financial status and update you on our strategy to mold programs to meet the needs of our patrons.

II. BACKGROUND

MWR's principal mission is to provide basic physical fitness needs and a varied program of wholesome and constructive off-duty recreation and leisure opportunities -- all of which effectively contribute to the mental, physical, and social well being of our Sailors and their families. MWR provides mission essential functions which enhance readiness by promoting team work, retention, fitness, a positive mental outlook, improved morale, and a healthy alternative to substance abuse.

Navy MWR Programs provide our Sailors, their families and our retired population with the civilian equivalent of community recreation support and physical fitness programs, as well as a variety of food and beverage services. These programs include a wide range of leisure, family support and personal development activities designed to meet the needs of our entire Navy family.

The Navy's MWR Program has been and will continue to be critical to our success in retaining a ready force to defend our nation. As I reported last year, satisfaction with the quality of MWR programs, services and facilities continues to remain high and is a key factor in many Sailors' decisions to reenlist.

III. STRATEGY

We have been very pleased with the significant increase in visibility and support that MWR has been receiving from all levels of leadership within the Navy and the Department of Defense. Navy leadership has identified MWR and child care among its most important funding initiatives. The Joint Chiefs have listed MWR among their top priorities for value and funding. Overall MWR is being recognized as an important part of Quality of Life.

With this support as a foundation, we have worked closely with the Assistant Secretary of the Navy (Manpower and Reserve Affairs) and the Marine Corps to develop a very important blueprint for the future of MWR as a key part of a Quality of Life program strategy for the entire Navy. This Quality of Life comprehensive assessment, which will take us into the twenty-first century, looked at all elements of Navy Quality of Life from medical needs to legal support and included a detailed look at MWR. This plan has identified four key objectives for MWR Programs:

- Recapitalize the MWR infrastructure by aggressively investing in equipment, renovation and repair and new facilities.

- Provide balanced programs and services on an equitable basis throughout the Navy.

- Provide quality installation and operational level mission support.

- Provide deployment and contingency support tailored to the operational situation.

All of our program, capital, and financial efforts that I will discuss during the rest of my testimony are aimed at helping our program meet these four objectives.

IV. PROGRAMS

I want to begin my discussions with you regarding important new program initiatives that we have underway in MWR and child care. It is important to emphasize these efforts first because they represent what our Sailors and their families will really see as a result of any successes that we might achieve on the financial side of the house.

The past year has been one of innovation and progress in MWR programming. While top management has been focussing on financial and capitalization issues, our program people have been busy enhancing our MWR and Child Care Programs. I would like to highlight several of these initiatives for you by program element to give you an idea of the direction we are heading.

SHIPBOARD FITNESS AND RECREATION

Sailors serving on board ships are operating under extremely difficult and stressful conditions. With operational tempo remaining high and the ongoing need for our Sailors to meet the mandatory fitness standards set by the CNO, we recognized the need to provide enhanced shipboard fitness and recreational opportunities for our afloat force. With your support, the Navy has funded and will be executing three interrelated initiatives to meet these needs in FY97. We will outfit afloat units with state of the art fitness equipment during FY97. Secondly, we will be expanding to full coverage library learning resource centers on each ship. These are computer-based libraries complete with CD-ROM capability and an extensive array of recreational and educational software. Essentially, we will be ensuring that all our afloat Sailors have access to the capabilities of a complete library while using a minimal amount of space. Finally, we will be providing additional recreational gear inventory to each ship to ensure that they have a complete set of the needed recreational equipment to run a good program while on long deployments.

FY97 will be a very busy year for us in the fleet recreation area which will culminate in our ships having significantly greater access to the kinds of recreational opportunities that our deployed personnel need and deserve.

FITNESS TRAINING INITIATIVES ASHORE

Based on the 1995 Navy MWR leisure need assessment, the number one activity by preference and participation for Navy personnel continues to be fitness and sports programs. Bolstered by this knowledge and recent Marsh Panel recommendations for improved quality, availability, and staffing of fitness centers, we are making available a new training program for fitness center personnel that will ensure that they have all the skills necessary to operate an effective fitness program. Professionally trained and certified fitness staff play a critical role in ensuring that patrons are provided the opportunity for a safe and satisfying physical activity experience. Additionally, fitness and sports personnel provide the majority of the training to the command fitness coordinators of the Navy physical readiness program. This training will make a significant and immediate positive difference in the delivery of fitness programs ashore.

YOUTH

We envision the need for our youth recreation program to grow significantly over the next few years. This will require greater focus and more consistent policy guidance

than these programs may have traditionally received in the past. In anticipation of these events, we have increased our attention to youth recreation program issues over the past year and will continue to do so. We have developed two key new youth programs that are already being well received and which we believe will have great potential for good over the next few years.

The first is a program that we call the interactive multi-media resource center. We are in the process of implementing this program on Guam and are scheduled to implement later this year in Pearl Harbor, Great Lakes and Naples. Our goal is to enhance educational and recreational opportunities for Navy family members in kindergarten through 12th grade by creating an Internet web site and technology center. This program will introduce Navy youth to state of the art computer and CD-ROM technology, Internet applications and enhance tutoring and mentoring opportunities for Navy children. We plan to make good use of the new computer hardware that was provided this year to our youth centers along with our existing youth center infrastructure. This program will be an essential tool in keeping our youth centers up to date and relevant to the needs of our youth.

The second program that we formally instituted last fall and which is just beginning to bear fruit is a partnering guidebook that we issued to the field last fall. This guide was designed to encourage our MWR youth programs in the field to work more closely with their local schools to provide for the before and after school youth program needs of school age children. The program offers an exciting chance for our

field activities to "think out of the box" and meet youth program needs at a very low cost in a convenient environment. The MWR field activities are just beginning to get their arms around the potential opportunities that might be out there in the schools but we already have seen some initial success at several sites. Our youth staff at BUPERS will be spending additional time over the next few months marketing this program more aggressively and working to expand its impact further.

CHILD DEVELOPMENT

Child development programs continue to draw a great deal of attention at all levels as we strive to meet the child care needs of our Sailors and their families in a high quality and affordable fashion. We are expanding the focus of our current program beyond child development centers and family child care (care provided by Navy spouses in government housing) to increase the availability of child care with two important initiatives.

The first is outsourcing. The FY95 DOD appropriations act encouraged the Department of Defense to investigate child care alternatives that provide appropriate services at lower cost. Navy volunteered to serve as the executive agent for this project because of the potential that we believed it offered. Our plan has been to increase the availability of affordable quality child care by augmenting Navy's current child development centers using commercial resources. The approach is to contract for spaces in order to "buy down" rates in civilian child development centers. We plan to

conduct this test program in the Norfolk, VA, Jacksonville, FL, San Diego, CA, Seattle, WA, and Pearl Harbor, HI the remainder of this fiscal year and during FY97.

We have also been working to increase the availability and affordability of family child care (care provided by Navy spouses in government quarters). The military child care act of 1989 authorized subsidies for family child care. On the average, family child care costs the parent about \$20 more a week than on-base center care. Navy is conducting test programs to determine if subsidizing family child care rates increases the number of providers and parent usage of the program. This is being tested in the Seattle and San Diego areas with good results so far. We expect to have developed measurable results by the end of this fiscal year.

We have also tested the concept of certifying military spouses living in the civilian sector so that they can provide family child care. This concept is currently being used successfully in Everett, WA and Scotia, New York, due to the limited amount of government housing in those areas. Because the majority of Navy families live off-base, we think this initiative will offer the opportunity to provide more child care closer to where many Navy people live. We hope to expand this effort to other Navy areas where additional child care spaces are required in FY97.

As these efforts gain momentum and acceptance, Navy will be in a position to expand its program to meet the needs of more Sailors and their families.

FOOD AND BEVERAGE OPERATIONS

We continue in a transition period from traditional rank-segregated military clubs (i.e., officer and enlisted clubs) to providing market-driven food, beverage and entertainment services. Where populations are large enough to support traditional clubs, they operate profitably. In some cases, traditional operations are consolidated into an officers and chiefs lounge or a rank specific lounge into an enlisted or all hands club. However, in many locations, we must determine what customer needs are and then find a way to radically change the traditional club approach. This results in a variety of operations including quick service restaurants, catering centers and entertainment venues that are highly participatory for patrons in things such as daily promotions, action games and amusement machines.

Reducing the present level of square footage in our food and beverage operations and "bundling" other types of activities with club operations will help us continue to reduce operating costs. We've found that our single sailor programs, some of which are set in a student union type environment, work very well within present club space. We also share space with the Navy exchange where it makes good business sense. For instance, the club activity at Naval Hospital Portsmouth will also house the Navy Exchange.

We've developed a base-wide food, beverage and entertainment needs assessment tool which looks at all food, beverage and entertainment on the base, including MWR, Navy Exchange, contract and civilian MWR operations. We also assess the competition and prices outside the gate as well as survey local customers, including active duty, family members, DOD civilians and retirees, to determine usage data, product preferences and spending levels. This information is used to adjust the number and type of food service outlets on the base.

Financially, Navy club operations are a success story as we continue to eliminate losing operations and improve the quality and effectiveness of our remaining activities. as of January 1996, we were operating 240 club activities which is down from 250 at the end of FY95. As BRAC bases continue to close and club operations continue to consolidate, the numbers will continue to decrease. Navy clubs completed FY95 with \$182M in total revenues. After BRAC bases close, we expect total revenues to settle at approximately \$170M annually generated by about 200 food service activities. Despite this downward trend in revenues over the past several years, Navy club profits have doubled since 1990. Navy MWR is also cognizant of its responsibilities to help ensure responsible use of alcohol among our patrons. We have steadily adjusted our operational procedures to discourage excessive alcohol consumption. In addition, we contracted with the American Hotel & Motel Association's Educational Institute in 1994 and fielded a comprehensive alcohol server intervention program. The training program has been very successful and is now an annual requirement for all MWR employees who serve alcoholic beverages. Employees are trained on laws governing alcohol

service, procedures for checking identification, the effects of alcohol in the body, how to discourage over-consumption, and how to intervene if over-consumption occurs. Finally, each holiday season, we provide a designated driver poster featuring a prominent sports, movie or TV personality who discourages driving and drinking and encourages everyone to use a designated driver. For the 1995 holiday season, the Army, Air Force and Marines were included in the Navy designated driver program under a joint commercial sponsorship arrangement.

The Navy club program has been active in cooperative interservice efforts. Navy took the lead and developed a handbook which documented the various innovative food concepts which have been created by MWR programs and exchanges. This was distributed to all NAF food and beverage program managers with information on the concepts, training programs, implementation guide book and operational information.

NAVY MOVIE PROGRAM

We have made great strides in the past year and half in improving the quality and cost effectiveness of the Navy movie program which is one of our more popular MWR programs, particularly afloat.

Our new contract with the film industry provides for reductions in licensing fees and related program expenses that will produce an estimated annual savings of \$500K to the program. This contract also significantly shortens the delivery time of new

videotapes to our shipboard Sailors, thus providing them with the opportunity to view major movie releases before they become out-dated through exposure at local video stores and discount movie houses.

We are in the process of converting selected base theaters to a commercial quality 35mm film format from the obsolete 16mm film format that was previously used. This will provide our active duty and dependent populations with the same quality of presentation available at first-run movie theaters.

We are taking advantage of the BRAC-directed move which will result in consolidating our movie program with other headquarters functions in Memphis. The change will result in an improvement in our movie distribution functions, permits us to reorganize our movie program staff to achieve efficiencies and fully integrates the movie program management function into our MWR program management office.

STANDARDS AND METRICS

We have long been concerned about improving the process we use to evaluate MWR programs. Traditionally, MWR programs have been evaluated almost solely by their financial performance when that is just one piece of the performance puzzle.

We are now defining operational standards for major MWR programs and helping the field develop a relatively simple performance standards and measurement

system for bases to use to determine if their programs are within prescribed limits. We are testing the new system this summer at Pensacola and Pearl Harbor and will begin Navy-wide implementation during 1997.

Once implemented, this common set of metrics and standards will permit Navy base commanders to better measure the quality, quantity, as well as the cost of major MWR programs. Funding decisions can then be made consistent with program results and available resources. It will also help us better quantify for you the positive impact that MWR programs have on the Sailors that we are serving.

MANAGEMENT ASSISTANCE TEAMS

We are working hard to contain costs and preserve the most needed MWR core programs. One way we have been successful in doing this is with the use of Management Assistance Teams (MAT).

In the fall of 1994, we began an initiative to reduce operating costs. The initiative included focusing efforts on two principal areas: BRAC bases and bases reporting suboptimal MWR financial performance. MWR programs at these bases are being reviewed by a MAT team that is led by senior BUPERS MWR program staff with extensive field background.

Reviews have been conducted at 16 BRAC and 22 non-BRAC bases during the past 18 months. By the end of this fiscal year, we will have reviewed another 12 bases or approximately one-third of all naval installations. The BUPERS MAT teams have recommended an aggregate of over \$8.8 million in NAF savings or operational efficiencies to date. Our success rate in having these changes implemented quickly in the field has also been impressive with an estimated 70% of the recommendations already implemented.

NEW APPROACHES TO OPERATING MWR

As in the case of the child care outsourcing initiative, Navy believes the future lies with partnering fully with the community and avoiding duplication of services whenever possible. We have been working on initiatives to out source parts or all of MWR operations at sites around the country. Our expectations are that we will be able to provide the same or better service without building support infrastructure. Naval Station Ingleside, where we are partnering with the USO to provide recreational services on base is an excellent example of this concept at work.

V. CAPITALIZATION

Navy has committed to a policy of "cost of ownership" for both the NAF and APF capital resources. The concept for MWR is straight forward. Core programming operating costs will be covered first by APF and then by NAF to be followed by

renovation or repair resources necessary to preserve existing capital assets and capabilities. Navy's goal is to reduce the current NAF construction backlog to zero over the next fifteen years. There are two principal considerations being used by the Navy board of directors to prioritize these projects. The first is return on investment. Second is fact of life considerations like BRAC which require rapid realignment of facilities to ensure equity of program delivery for gaining bases.

Navy MWR has become more efficient in daily operations through overhead reduction. Additional APF dollars have also been made available to maintain real property and offset operating cost legally chargeable to APF. As a result, significantly more NAF has been allocated to minor and major construction and repair. In FY96 Navy NAF MWR minor construction and repair are planned to be \$40M. Major capital projects totalling more than \$15M are in process to start in FY97. Navy expects at least this level of major capital investment to continue beyond FY97 in order to eliminate the NAF capital construction backlog over the next 8-15 years. Variability of the time line for eliminating the backlog is driven by outyear minimum and maximum expectations of exchange profits available to Navy MWR as well as priority funding of authorized APF costs now being born by NAF funds.

FINANCIAL

The financial posture of the MWR program has stabilized after BRAC and is projected to be good despite the effect of Navy downsizing. We have high confidence

in the success of both appropriated fund (APF) and nonappropriated fund (NAF) initiatives which will stabilize the level of capitalization at acceptable levels and correct historical underfunding of Navy MWR programs.

Navy internally realigned money, with your support, in FY94 to improve APF support to MWR. The FY94 increase of \$65M was added into the APF baseline and was spent on pre-existing MWR requirements and some program growth. Preliminary budget execution reports show that this baseline has held in 1995 and 1996, and we expect it to hold through FY97. We have also had success in funding a critical initiative in the FY97 budget for the shipboard fitness and recreation initiative I mentioned earlier. Additionally, in FY97, the MWR budget grew \$11M over FY96, primarily in our child care and MWR support in Europe. There are also funds to compensate for the decrease in Navy Exchange profits resulting from the conversion of Navy Exchange military officer billets being deleted in FY97. Navy is still advocating correction of historical underfunding of MWR with APF. APF support remains some \$64M less than the OSD APF policy guidance of 100% for category A, mission essential expenses, and 65% of category B community support expenses. Navy is assessing this shortfall in its POM 98 planning and we are hopeful of a successful outcome.

An extremely important prospect for the future is the unified resourcing demonstration project that you included in the 1996 Defense Authorization Act. It has great promise to help us to fund the MWR program much more efficiently--using NAF

rules versus the more cumbersome APF personnel and operating systems. We sincerely applaud your support and will do our utmost to make this initiative work.

Shifting to nonappropriated funds, the improved APF support in FY97 as well as internal efficiencies have further stabilized the MWR NAF financial position. The consolidated MWR system ended FY95 with a surplus of \$11.2M, which was an improvement over the FY94 performance. This surplus, plus other internal cash flows (depreciation) went to fund a robust local repair and renovation NAF capitalization effort. Virtually none of that capitalization was reported to Congress since it fell under the reporting thresholds applicable to major construction only.

This financial performance was of particular note because we were able to accomplish the improvement in a fairly severe downsizing environment, one which resulted in a drop in overall revenue. We maintained profitability by cutting expenses at a greater rate than our decline in revenues. I am pleased to report that the system continues to show positive operating results thus far in FY96.

MWR's reliance on Navy exchange profits to subsidize our operations decreased by \$7M in FY95 and will decrease again in FY96. This is a key part of our deliberate strategy to make operations more efficient and devote a larger share of NEX profits each year to central recapitalization. We have several vehicles that we intend to use to continue to improve our efficiency: creation of Navy program standards; additional management level information systems (now in test); a highly organized and business-

like NAF budget process; the management assistance team process noted earlier; and Navy tests to regionalize common support at the base level to cut overhead costs.

Navy has adopted a simpler way of distributing Navy Exchange profits in FY96. We experimented with the revenue assessment system in FY94 and FY95, but found that it was complex and counterproductive. Our new system splits NEX profits between MWR and NEXCOM via an annual commitment, which approximates the same 70/30 split used by Army/Air Force and AAFES. The new profit distribution plan should simplify NAF financial administration and enhance both programs' ability to consistently execute NAF major and minor capital projects.

Relative to NAF major construction levels, I certainly understand that this committee is concerned about our FY96 NAF major construction program deferral. We understand that more NAF major construction was expected from the FY94 APF increase than Navy was able to execute. A Navy team has restudied the matter, and has briefed senior Navy leadership, OSD and congressional staff on the situation. The answer is complex but to summarize:

1. The increased funding did result in new MWR major construction--\$15M in FY93 from the cash concentration and \$137M in combined FY94 and FY95 MWR/NEX major project obligations. The Committee approved MWR and NEX major construction projects in 1993, 1994 and 1995. A large portion was not reportable since it involved repair and renovation or was under the \$500K reporting threshold. A significant portion

of the FY93 cash concentration was executed at the station level for lower cost repair/renovation and equipment projects that were already underway.

2. The \$137M FY94/95 obligation plan was executed as approved by the Navy MWR/Navy Exchange Board of Directors.

3. There was no NAF major construction submission of new projects in FY96 because the MWR and Navy Exchange programs had to fund the \$137M in previously approved commitments. Navy correctly estimated that NAF earnings or NAF cash flows in FY96 were fully committed to projects previously approved in prior years. As a result, there was a need for a FY96 pause which gives us a chance to catch up. However, the FY96 pause did not mean that capitalization was not ongoing. MWR continues to fund a robust local capital program, in the \$35M-\$40M range annually, including FY96.

4. Navy will have NAF major construction projects in FY97 and outyears. An MWR capitalization plan was recently developed which calls for \$15M - \$17M in MWR major construction project submissions for FY97, potentially increasing to the \$27M range by FY99. The level of construction in the outyears is dependent on MWR receiving increased APF funding and equivalent manpower authorization via POM 98 and a stable NAF revenue stream from MWR category C and Navy exchange activities. Of course, this capital plan will be reviewed and modified annually by our Board of Directors as resources dictate.

As this Committee has directed in the past, we continue to monitor nonappropriated fund cash balances. MWR field level NAF cash is a special focus item during the annual NAF budget process, and we are highlighting effective cash management procedures with the stations in a variety of formats. We recently re-implemented a highly successful capital project loan program to improve NAF recapitalization and place additional leverage on NAF cash fund resources. With this action, virtually all Navy MWR field and central fund cash balances are earmarked for capital projects or dedicated to other short term or statutory commitments.

Our Navy NAF investment program continues to combine the best elements of financial return and safety of principal. Navy NAF funds are invested in government backed and guaranteed securities. investments include fully collateralized repurchase agreements, federally insured certificates of deposit and Treasury and agency (e.g., Fannie May) securities.

MWR ORGANIZATIONAL STRUCTURE

Effective program oversight and major business policy decisions are made by the MWR/NEX Board of Directors. The Board of Director process continues to improve as we gain more experience and make ongoing adjustments. We have enhanced the process in the past year by creating a 5 person flag-level executive council that supports the Board of Directors by providing more direct oversight and thoroughly

screening all issues before they are presented. This helps streamline the process and ensure that board time is devoted to the most important issues.

The Board has also been invaluable in helping us obtain high level Navy support for MWR programs. The program visibility that the Board has provided has helped ensure top Navy leadership resourcing support at all levels for MWR initiatives.

VI SUMMARY

Navy MWR has made much progress in the past year and we are cautiously optimistic about the future. Although we, along with the rest of DOD, are facing uncertain times and resource constraints, we have an excellent Department of Navy assessment plan that will guide our program initiatives into the next century. We are financially in a solid position to weather the many challenges that we will be facing. We continue to vigorously pursue streamlining and cost efficiency initiatives. We are committed to maintaining the facility infrastructure that we now have and building new facilities where they make good business sense or satisfy fact of life needs. Our people remain on the cutting edge of new program ideas to ensure that quality leisure time, food service, and fitness opportunities are made available to our Sailors and their families. Overall, we look forward to working closely with this committee to continue to improve this vital service that we provide our Sailors and their families.

Mr. MCHUGH. Thank you, Admiral Marsh.

General Joy mentioned, as did others, rather in passing, some of the plus-ups that have occurred to the MWR programs. In spite of the fact that we are still trying to resolve fiscal year 1996, we are now turning our attention to fiscal year 1997. The President has sent his outline of the budget up to the Hill a couple of weeks ago.

Could each of you go through for us what the MWR budget requests look like for your area of jurisdiction, and how that may line up with priorities? Are there new priorities, or how does that appear at this point?

General JOY. Sir, I will go first, because my remark is brief. We are holding the baseline, and we are very pleased at that. However, we have a long way to go before we achieve the Department of Defense's objective that we fund 100 percent of our expenses in category "A" activities with appropriated funds, and 65 percent of category "B."

We are continuing to work that. We are working POM 98 at the present time. But for budget year 1997, we are going to be at just about the same level as 1996.

Mr. MCHUGH. Admiral.

Admiral MARSH. The Navy finds itself in a very similar position as the Marine Corps: No degradation, no decrease. The baseline, we feel, is holding.

But we have done something, as I just mentioned in my statement, though. We have plused-up \$22.5 million for our shipboard effort and to support in large measure our single sailors at sea.

That \$22.5 million—about half of it will go strictly for fitness equipment. We have another half that will go for our library, our computerized library program, where we use CD-ROM's. And, in essence, the sailors at sea will have access to a complete library on CD-ROM and computers. That is, both educational and recreational disks will be provided.

And a final, smaller piece of that will go for recreation equipment, to be stored aboard ship so that sailors can use it either on-board the larger ships or when they are in port, to have recreation offshore.

Mr. MCHUGH. Thank you. General Meyer.

General MEYER. Sir, the Army's goal will be—do not lose ground, maintain what we have. The small, modest increase we may receive will go toward gyms and fitness centers, recreation centers and libraries, and to shore up the appropriated fund dollars in category "A" activities.

Mr. MCHUGH. OK. General Adams?

General ADAMS. Mr. Chairman, the Air Force has enjoyed for several years very robust appropriated fund support in category "A" and some category "B" activities. Our future budgets will include a very modest growth in appropriated funds in fitness and in childcare. And I would like to provide a detailed response for the record, if I may.

[The following information was submitted for the record:]

MORALE, WELFARE, AND RECREATION ISSUES

Mr. MCHUGH. General Joy mentioned, as did others, rather in passing, some of the plus-ups that have occurred to the MWR program. In spite of the fact that we are still trying to resolve fiscal year '96, we are now turning our attention to fiscal

year '97. The President has sent his outline of the budget up to the Hill a couple of weeks ago.

Could each of you go through for us what the MWR budget requests look like for your area of jurisdiction, and how that may line up with priorities? Are there new priorities, or how does that appear at this point?

General ADAMS. Mr. Chairman, the Air Force has enjoyed for several years very robust appropriated fund support in category "A" and some category "B" activities. Our future budgets include a very modest growth in appropriated funds in fitness and child care. For example, the FY 97 President's Budget estimates total O&M support to Air Force MWR at \$352.6 million, up from a projected \$347.7 million in FY 96. Overall, these figures indicate modest growth in APF support to MWR activities during a period of force structure change and downsizing. This increase is a direct result of Air Force initiatives to restore the proper balance of funding that Congress directed in costs borne by the taxpayers versus the participants. Our priorities have not changed. Almost forty-two percent of the FY 97 submittal is directed toward our three highest priorities: fitness, child development, and libraries.

Mr. MCHUGH. Certainly. We will appreciate that.

Admiral Marsh, you mentioned in your written testimony that the Navy is about \$65 million short of 100 percent in category "A." Is that through 1997?

Admiral MARSH. Yes, sir; that is a combination. It is actually category "A" and category "B."

Mr. MCHUGH. The statement says, "APF support remains some \$64 million less than OSD APF policy guarantees of 100 percent for category 'A.'" And, if I continue to read, "mission essential and—" They are both 65 percent. OK.

Admiral MARSH. Yes, sir; it is a combination of "A" and "B," sir.

Mr. MCHUGH. OK. General Meyer, where are you on that same standard?

General MEYER. Sir, if you tried to fund everything in category "A" in the Army with appropriated funds, we would need \$35 million more to do that.

Mr. MCHUGH. Thirty-five million?

General MEYER. Yes, sir.

Mr. MCHUGH. And that—

General MEYER. We would take that in two increments, if anybody wanted to give it to us. [Laughter.]

Mr. MCHUGH. Two?

General MEYER. Let me fish, here.

Mr. MCHUGH. Equal amounts, or at a division of our choice?

General MEYER. You can split it in half, sir.

Mr. MCHUGH. OK.

General MEYER. One this year, one the next.

Mr. MCHUGH. OK. That is OSD policy, I would remind you.

General MEYER. Well, they are listening, I hope.

Mr. MCHUGH. Yes. OK.

General Adams, do you have that figure?

General ADAMS. I do, sir. And when we get back to the office, if this is incorrect, we will resubmit it for the record.

Mr. MCHUGH. Of course.

General ADAMS. We fund 98 percent of category "A" appropriated fund requirements currently. We probably will never get to 100 percent, because of some of the activities, the things that are embedded. Like in libraries, for example, there is this very, very small category "C," it is a rental copier. It is a business operation, and so it will never be 100 percent appropriated, as a result.

For category "B," we are currently at 52 percent, and we see some upward growth there, as I mentioned in my first response. But we are very satisfied, and look forward to continuing support from the panel.

General JOY. Sir, as I mentioned earlier, we are substantially below the level of 100 percent for category "A," and 65 percent for category "B." We felt up until the current time that we were probably about \$20 million short. However, under the direction of the Secretary of the Navy, we have been working along with Admiral Marsh's people to validate that requirement in light of certain metrics, and we now find that it is substantially more than the \$20 million. It may be as much as \$40 million.

However, I would caution you that that has not yet been validated by the Secretary of the Navy and the Commandant of the Marine Corps, but it is probably in the \$35 to \$40 million range.

Mr. McHUGH. Right. A number of you had mentioned that as you survey your patrons, certainly amongst, if not the No. 1 interest is in fitness centers. DOD's quality of life taskforce identified that as their No. 1, or what they found to be a No. 1 priority.

General Meyer, you noted that a large share of your plus-ups is going to go to that. That obviously suggests that is a priority. Are the other services treating that as a top priority, as well?

General JOY. Absolutely. In fact, our commandant has me doing a very complete survey of our fitness centers. As we speak, we have a consultant who is going around evaluating all of our fitness centers.

I just briefed my boss, the Deputy Chief of Staff of Manpower, in regard to our plans to enhance them. But we have a major program underway, buying new equipment. The big problem, the long pole in the tent, is the fact that the facilities, the actual buildings, are in dire need of repair.

We are going to be able to handle the new equipment, and we are going to implement a program of hiring better qualified people to set up programs. However, it is a long-term objective to enhance the facility, itself.

Mr. McHUGH. Admiral Marsh.

Admiral MARSH. Yes, we have that emphasis in the Navy, as well. As I have indicated, with the \$22 million, a large measure will go for fitness equipment onboard ship. However, ashore, the Chief of Naval Operations has mandated that people work out, if you will, at least three times a week, as part of our physical fitness and physical readiness program, which has enhanced the interest in using physical fitness centers.

So we are very mindful of that, and we are working to upgrade our centers and to provide the maximum opportunity for all our sailors, as well.

Mr. McHUGH. Thank you.

General Meyer, you have already indicated that. General Adams, the same priority?

General ADAMS. Mr. Chairman, as I think I said in my summary comments, fitness—our patrons regard it as their No. 1 customer driven desire. We have a shortage of facilities. It will not be solved in the near term through the military construction program.

We have a program to upgrade and to better utilize the facilities that we have, and we are very proud of it. I think that most of our field commanders will tell you that our program that is laid out over the next 2 to 3 years has sufficient funding in it for existing facility upgrade, and they are very satisfied. But there is an unmet need, such as child development centers.

Mr. MCHUGH. All right. Thank you. I am going to yield to the ranking member, Mr. Browder.

Mr. BROWDER. Thank you, Mr. Chairman.

I would like to follow up with a quick question, and ask you to just answer in a sentence or so—in pursuit of your first question, Mr. Chairman.

I would like each one of you to tell us what is the single most significant difference between your request this year and the previous year, and tell us why you consider that the single most significant difference.

General JOY. As I said, sir, as far as the Marine Corps, our request this year is almost exactly the same as last year, because we are trying to protect the baseline. So there is no significant difference. In fact, the plus-up money that we receive over the next few years, our program, we are planning on the \$42 million each year. We are putting about \$14 million into personnel. We are putting \$14 million into supplies and equipment. We are putting \$14 million into sprucing up our facilities. That is as far as direct support.

Admiral MARSH. Yes, sir; ours, again, has to be our emphasis this year on ships and sailors at sea, and physical fitness equipment and recreation equipment onboard our ships, and upgrading that.

General MEYER. Sir, last year, our emphasis was on child development and youth. This year, the money is on fitness centers, recreation centers, gymnasiums.

General ADAMS. Congressman, I think, clearly, the difference between this year and last year is our emphasis on the strains resulting from OPTEMPO tempo of our activities as we have been deployed throughout the world.

Mr. BROWDER. Thank you. That is all, Mr. Chairman.

Mr. MCHUGH. Mr. Pickett?

Mr. PICKETT. Thank you, Mr. Chairman.

I want to welcome our witnesses on this panel today. On the issue of the fitness centers, are you not permitted to spend appropriated dollars for this kind of physical fitness capability for your people?

General JOY. Yes, sir. In fact, we would strive to fund 100 percent of our fitness centers, all the way from MILCON to the equipment and the staffing, with appropriated funds. We are not there yet, but that is our goal. Absolutely.

Mr. PICKETT. Does anyone else want to comment on this?

I just observed, Mr. Chairman, of all the things we do, it seems to me that we should be funding the fitness centers, because they do so much. They keep the young people on the base. Of course, they contribute to the health of the force, and all of these other things. And it is just shocking that we cannot provide enough resources to the military departments for them to meet their basic

needs in this area of fitness centers. And I hope we will all try to do something about that this year.

The other issue I wanted to touch on briefly was that of childcare. I was surprised to read in one of the statements here that family childcare costs \$20 more per week than having a child in the child development center. And I always thought it was the other way around: that home care was less expensive than care in a child development center.

Would you all comment on that, please?

Admiral MARSH. Yes, sir. That was in my statement, Mr. Pickett. Now, what that was referring to was what the patron is charged. We have certain rates which are set in a child development center, and it is depending on income level.

For family childcare in the homes, we do allow the provider to charge at an equitable rate. The provider can charge what he or she wants, which is basically, about a \$20 difference.

Now, we do have an initiative in the Navy, as one of the subsidies for childcare initiatives, to buy down that rate, to make it equitable. So we would take some of our monies, some of our appropriated monies, and buy that rate down so it would be the same in family childcare as well as in the child development center; thereby, encouraging and enhancing a family childcare program. We think this has a great benefit for us, where we can get more children than provided for at a reduced cost.

Mr. PICKETT. How do the Army and the Air Force handle this issue?

General MEYER. Sir, it is similar in the Army. And the reason that the family care home provider can charge a little bit more is because of the flexibility of the hours. For example, your center might be open from 6 o'clock in the morning till 6 o'clock in the evening. But a home could open at 4 o'clock in the morning, 5 o'clock in the morning, for a soldier to do PT. Or a home could stay open extended periods of time while the soldier is deployed.

So that home provides a lot greater flexibility, particularly in the hours, needing a little bit more money. The Army does subsidize that home in many, many cases.

Mr. PICKETT. You do subsidize the home care?

General MEYER. Yes, sir; we do. For example, right now we pay for all the home care insurance. That is like a private contractor. It is a spouse who is really doing a great service to the military. We are putting money in soldiers' pockets, also, by doing that. But we pay all their insurance for them, plus we also provide a subsidy to help reduce that to the patron.

Mr. PICKETT. Reduce it to what the patron would pay in the child development center?

General MEYER. Yes, sir. It is not a total match everywhere. Each installation gets to do as much as they can, but many installations try to make the fees equal for the home as well as the center.

Mr. PICKETT. My experience has been that most families would like to have their child in the child development center, but there is not enough capacity to accommodate them, so they have to be in the family care.

And I find it rather unconscionable that it would cost more to be in the family care than it does to be in the child development centers. And I do hope that you all can get this at least comparable, where it does not cost any more to be in the home care.

What about the Air Force?

General ADAMS. Sir, there are some modest differences. I think in our experience there is a slight increase in the cost per child for care in a home daycare situation because of the lack of economies of scale, the additional overhead that is necessary to manage the program correctly.

Our entire program is funded 50 percent appropriated and 50 percent customer fees.

Mr. PICKETT. Well, the next question I have is, how much non-appropriated fund money is going into the childcare program? That is supposed to be funded with appropriated dollars. I know there was something in your statement, I believe, here.

General MEYER. Sir, I made a comment in my statement. The Army did not distinguish itself over the years in this arena, but we have made great progress. We will be down to slightly under \$1 million at the end of this year, when we were \$22 million in fiscal year 1992.

We have really tried hard, and the other services are a little bit ahead of us, but when we have come down from \$22 million to \$1 million in about three years, we feel comfortable.

General JOY. Sir, I do not have responsibility for childcare within the Marine Corps, but I do have responsibility for NAF that goes to support it. And I am very pleased to report that last year it was down to a low of \$70,000 from \$1.5 million a couple of years ago. So we are making great progress.

Mr. PICKETT. Admiral?

Admiral MARSH. Yes. Like the Army, we have been working to drive our level of funding down, and it is down several hundred-thousand dollars right now. We are hoping within the next couple of years to drive it to zero.

Mr. PICKETT. General Adams?

General ADAMS. Sir, it is an extremely small amount. Virtually no nonappropriated funds are used in our child development centers.

Mr. PICKETT. The other point that was not mentioned here in any of your statements—and maybe I am on the wrong issue—but one of the things I find that a lot of military members are interested in is being able to continue their education while they are in the military, and taking credit courses. Does that not come under the nonappropriated fund? Do you all provide the facilities for that on the bases, or you do not do that?

Admiral MARSH. No, sir, that is under the voluntary education program where we do—

Mr. PICKETT. So that is an appropriated fund activity?

Admiral MARSH. That is appropriated funded, yes, sir.

Mr. PICKETT. All right. What about the libraries that you mentioned? Are they nonappropriated funds?

General ADAMS. It may differ by service slightly, sir. Our libraries are category "A" activities, and our intent is to maximize appropriated support to them, because they are part of the education

system, first and foremost, and they are a recreational activity, second.

Admiral MARSH. The Navy treats it as the Air Force.

General MEYER. And so does the Army, sir.

General JOY. And we do too, sir. I would also point out that we just had an exhaustive study of our library system by consultant. We just had a brief-out of that study yesterday, and it is our intention in the next couple of years to spend perhaps up to \$5 million of our appropriated fund plus-up to bring our libraries into the 21st century.

Mr. PICKETT. What is happening, General Meyer, in Europe with the downsizing? And there is a very substantial downsizing by the Army there. Has the NAF fund realized any dollars out of the disposition of NAF facilities that have gone away with the bases that have been closed there?

General MEYER. No, sir. We have not received any NAF plus-up dollars as a result of any base closure in Europe.

Mr. PICKETT. Not at all?

General MEYER. No, sir.

Mr. PICKETT. And do you know offhand the dollar value of the facilities that have been paid for with NAF money that has been turned over to the local authorities there?

General MEYER. Sir, I can generally tell you Armywide—and I would want to submit this, for sure, for the record—it is probably between \$50 million and \$60 million. I do not have Europe specifically. But of all the BRAC, Armywide would probably be about \$50 million to \$60 million. And I will submit it for the record to make sure.

[The following information was submitted for the record:]

U.S. proposed value of Army Morale, Welfare and Recreation facilities constructed or renovated with nonappropriated funds (NAF) on bases closed in Europe is estimated to be approximately \$69 million*. Recovery of these investments will be pursued during negotiations with the host government. However, amounts recovered will depend upon a variety of factors such as the impact of assessed environmental damages on an installation, and agreement on whether or not renovations have enhanced the value of a specific building for its future intended use. In accordance with the Status of Forces Agreement, if there is no follow-on use or net proceeds of sale to the private sector, the value of the U.S. investment will be zero.

Mr. PICKETT. What about in the continental United States? Are you doing any better here in getting money back into the NAF fund?

General MEYER. No, sir. We have not gotten any money in the NAF fund for any base closure.

Mr. PICKETT. Whose responsibility is it to follow up on this? Because we have been talking about this now for several years, about the NAF facilities when they are disposed of, that the money for those would come back into the NAF funds. But is anyone pursuing that? Who is responsible?

General MEYER. Sir, I think that the Department is pursuing it on behalf of all the services, to try and rectify that situation.

*This is an estimated amount, to be negotiated; the actual recoupment of residual value will be based on follow-on use or net proceeds of sale by the host nation. However, it should be noted that Payment-in-Kind (PIK) agreements have been used as alternatives to negotiated cash payments, to secure German government funding for construction projects such as the \$9.0 million Child Development Center at Mannheim, now under construction.

Mr. PICKETT. Which department are you speaking of?

General MEYER. The Department of Defense?

Mr. PICKETT. You mean at the Secretary level?

General MEYER. Yes, sir.

Mr. PICKETT. But the individual services are not doing anything?

General MEYER. All the individual services—correct me if I am wrong—are in the same boat, so I think the Department of Defense is trying to fix that situation. I do not think any of us have received any, have we?

General ADAMS. We have received no recoupments, sir. But we have asked for an accounting from the agency that is handling the disposal of the surplus properties and facilities. At this time, the Air Force nonappropriated fund account has received no reimbursement.

Mr. PICKETT. OK. Mr. Chairman, I would suggest that is an issue this panel should want to follow up on.

Mr. MCHUGH. I could not agree more. The gentleman brings up a very important point. And in fact, we are going to try to submit some questions for the record that help us to better identify that.

General Meyer just gave us a dollar figure. We think that is very important. To our knowledge, there have been no dollar recoupments to NAF funds for MWR projects lost through BRAC. And clearly, we need to look at that, and particularly in these difficult times. So the gentleman raises a great point.

Mr. PICKETT. Thank you, Mr. Chairman. And I thank our panel very much for their indulgence here today.

Mr. MCHUGH. I thank the gentleman. As I mentioned earlier, we have a full committee hearing at 1 p.m. so we are crowding up against that.

Let me just again say, as I requested of the prior two panels, we will be submitting specific questions to you in writing. We would ask that you make every attempt to submit those to us within 2 weeks.

They will be specific—like, for example, for General Meyer, what is happening at Hotel Thayer—to the more general, such as the NAF program with BRAC; and also, questions that relate to Operation Joint Endeavor.

We have not gotten into the issue of MWR programs for our troops deployed over in the Bosnia region. That is not to suggest we are not concerned. We understand that you folks are working that issue, and we probably are going to require greater detail than our time constraints would allow here.

But this panel is very interested in that, and we want to work with you very closely to make sure that the needs of these brave men and women are being met in every regard. I know that your interest lies in that area, as well.

Let me just, as a matter of closing, thank you four gentlemen, the members of our previous panels, and the members of our audience; also, the staff folks who worked so hard—my chief of staff, Cary Brick; Jeff Schwartz and Peggy Cosseboom; and Anne LeMay and Robin Wolfgang who are holding down the floor over there.

This has really been a team effort. Working with the ranking member, Mr. Browder, and other folks like Mr. Pickett, I know we

are going to do everything we can to continue to protect this benefit.

At the risk of being redundant, we are deeply concerned about realizing all possible economies and efficiencies, but we are more concerned about ensuring that our military men and women have this benefit, not just as a luxury but as something that is very necessary to maintaining their quality of life, and something that I think all of us as panel members believe this Government has promised them as part of their basic compensation. And toward that, we appreciate all of your support and input.

And so, with that, let us adjourn.

Thank you.

[Whereupon, at 12:57 p.m., the panel was adjourned.]

[The following material was submitted for the record:]

FRED PANG
ASSISTANT SECRETARY OF DEFENSE
FOR FORCE MANAGEMENT
DEPARTMENT OF DEFENSE

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

MARCH 27, 1996
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ON

MORALE, WELFARE AND RECREATION
ISSUES

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

PBO

Mr. Sisisky:

- Under the proposed DeCA Performance Based Organization (PBO), does the Department of Defense plan to ask Congress for relief under Title 10 USC to increase the price of any products currently sold in commissaries at cost plus five percent.
- What commodities have been identified for price increases?
- Is DeCA considering a variable pricing scheme for the commodities that have been identified for price increases, or an across-the-board percentage price increase? Please identify the categories and how price increases will apply to each category?
- How were the price increases determined and what are DeCA's business objectives, i.e., to maximize profits, to provide the best possible price to patrons, and how will quality be related to price?
- Will industry be given an opportunity to provide input, suggestions, and marketing expertise as anticipated pricing changes are formulated.

Mr. Pang: For a detailed description of this process I defer to General Beale.

QFR's 1,2,3,4

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

PBO

Mr. Underwood:

- What effect will DeCA's nomination as a Performance Based Organization have on the services provided to commissaries in distant locations such as Guam?
- What assurances can you provide that the level of service and goods provided will not be adversely affected by this change?

Mr. Pang: DeCA's nomination as a Performance Based Organization will ensure the preservation of the commissary benefit at all commissaries worldwide, to include distant locations such as Guam. The competitive incentive provided by PBO status is expected to make DeCA much more efficient and ensure there is an infrastructure which will support commissaries overseas in spite of declining budgets. If PBO is as successful as we anticipate, it will in fact enable us to maintain services especially important to our military people in distant locations like Guam.

The umbrella provided by PBO status is expected to increase efficiencies while reducing DeCA's reliance on appropriated funding. Commissary goods and services will continue to be provided to authorized commissary patrons at cost plus a surcharge assessed at the checkout. The current authorized categories will continue to be provided to our customers; we expect no degradation in those services our customers have come to depend on. We expect to improve upon delivery of this service to our customers through delivery of greater customer savings, while at the same time reducing the overhead costs of delivering this service. The reduction of administrative effort at our stores through improved automation will allow us to economize without reducing direct customer service. These include areas such as more effective manning of our cash registers, improved service in our meat and produce areas, expanded range of perishable products, and an improved commercial supermarket-type shopping environment.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

DeCA's Nomination to be a Performance Based Organization

Question:

- Under the PBO concept, a Chief Executive Officer would be hired to managed the PBO. Would this CEO be a general officer or a civilian?
- What impact will the selection of the Defense Commissary Agency as a PBO have on current reviews looking at privatization options?
- Please describe what role the Defense Resale Board will play in the PBO process?

Mr. Pang: Plans are for a civilian CEO with active oversight by a board of advisors consisting of senior military and civilian personnel from DoD and service components.

Secretary of Defense Perry remains committed to preserving the commissary benefit for service members while at the same time looking for new ways to save money and streamline operations. There are initiatives both inside and outside the Department that could offer potential for privatization and efficiencies. They are the Congressional Budget Office study and the Defense Science Board Task Force on Privatization and Outsourcing. Should the Department adopt the PBO concept it would be unlikely that other initiatives would take place at the same time.

As I reported previously, the DoD Executive Resale Board includes the commanders from DeCA, the exchange services, and MWR organizations. We recently added the Service Secretariats. The Resale Board will play a significant role in the development of the policy side of the PBO. The Board will need to analyze the impact that organizational changes to DeCA will have on the entire resale community, and make business and policy recommendations designed to assure the survival of all QoL benefits.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Commissary/Exchanges Transport of Supplies Overseas

Question: The FY 1996 Defense Authorization Act contained a provision to allow the commissaries and exchanges to negotiate directly with private carriers for the most cost-effective transportation of supplies to overseas locations without relying on the Military Sealift Command or Military Traffic Management Command. What has the Department of Defense done to implement this provision. What are its intentions?

Mr. Pang: A legislative proposal for repeal of this provision is contained in the Department's FY 97 legislative package. Meanwhile, we are establishing a mechanism to remove the "readiness premium surcharge" from the overseas transportation costs for exchanges and commissaries. DoD is endeavoring to reduce overall transportation overhead costs through reengineering of the transportation function.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Operation JOINT ENDEAVOR MWR Efforts

Question: What is being done to address the morale, welfare and recreation needs of the soldiers deployed in support of operation JOINT ENDEAVOR:

Mr. Pang: The Military Services intensified training of MWR personnel and identified recreation equipment to be sent to the Area of Operations (AO). Initial recreation equipment deployed with the troops includes books, magazines, board games, cards, and lightweight fitness equipment. Additional supplies are shipped as transportation becomes available. *Stars and Stripes* newspaper delivery commenced in early January with over 10,000 copies shipped daily.

Commercial sponsorship provided Super Bowl parties at 4 locations. Personnel at other sites were also able to watch the game and were asked to record the game for sites that did not have TVs. Additional TVs and VCRs are being installed as they become available.

Currently, over 28 base camps have formal recreation sites operating. These sites may include TVs, VCRs, fitness equipment, ping pong equipment, quiet areas for letter writing, video cameras for "video letters to home," and other recreational equipment. Sites are in various stages of getting their full complement of services and equipment up and running. Satellite Armed Forces Network radio and TV is available at some locations, Armed Forces Professional Entertainment Office and USO sponsored professional entertainers. Jay Leno and Larry Gatlin have entertained troops supporting Operation JOINT ENDEAVOR in Italy, Hungary and surrounding countries. Future shows include 8 teams of high quality comedy teams for May, and *Hootie and the Blowfish*.

In order to facilitate donations from the American people for the troops in Bosnia, on January 16, the Defense Logistics Agency opened a toll-free information number. Items that have reached the AOR include candy bars, chips and picante sauce, cheese and salami, and personal care products. Pending final coordination and shipment are CDs, Girl Scout cookies, letter writing stationary, 800 board games, and *Mrs. Fields Cookies*. The Office of the Secretary of Defense approved the Rest and Recuperation Leave plan, which consists of government transportation from and back to the AO and 13 days chargeable leave (for a total of 15 days absence). Nine tactical exchange facilities are operating in the AO and another 3 are planned. Unit-operated canteens are operating in 6 locations, with another 6 planned. The Army and Air Force Exchange Service (AAFES) plan to operate 14 exchanges throughout the region--11 are currently in operation. These facilities provide a range of basic services from rustic basic snack items and some magazines to "elaborate" services such as haircutting, flower wiring, catalog sales, laundry, snack, and food kiosks.

The APO system for mail was established just before Christmas and moves about 11,000 pounds daily (as of late January). The average one way delivery time is 8-10 days. Service to outlying areas take longer.

The AAFES, through a contract with AT&T, is installing telephones for personal calls. About half of the 25 base camps are completed. Because of the lack of infrastructure, AT&T is providing a combination of self-contained, mobile telephone trucks with satellite or microwave links and stationary telephone banks.

The degree of support provided varies by location. Support at some Base Camps is quite primitive while others have more robust MWR programs and facilities. The Services are continuing efforts to improve these important recreational services.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Partnering and Cooperative Ventures

Question: Please describe some of the partnering and cooperative ventures that DoD is undertaking to improve the efficiency of the MWR and resale system.

Mr. Pang: Cooperative efforts remain an on-going necessity and are a prime focus of the Department. Many studies have been conducted on various aspects of the military resale system, including consolidation of the exchange systems. The Department remains committed to saving money and gaining efficiencies through cooperative initiatives among the exchange systems.

Cooperative efforts have expanded beyond the exchange services, and now promote efforts across the entire spectrum of the Department's resale activities (exchanges, DeCA, and MWR). The Department's Resale Board has undertaken the study of many cooperative efforts initiatives. Some new MWR initiatives are:

- Development of common employment standards to assist in recruitment of NAF management trainees, and will be implemented in the FY 97 trainee recruitment effort.
- Consolidating MWR training. Six Army and seven Air Force candidate training courses were selected for review.

The investment in cooperative efforts has been a vehicle for bringing the exchange systems together through adoption of best business practices and systems. Three successful initiatives include:

- Long range distribution where our exchanges share use of distribution centers, shared use of van stuffing, and backhauling initiatives.
- Development of common label programs such as "American Mercantile" which is being used on film and single use cameras, tapes and strapping material, paper and plastic products, luggage, and bath and body products. Future programs will include cookware, suncare products, and candy.
- The sharing of food concepts between our exchanges has been ongoing for sometime. The Army and Air Force Exchange Service (AAFES), in cooperation with the Navy and Marine Corps, will be putting additional AAFES proprietary in house bands in over two dozen installations worldwide.

The Department is also engaged in reviewing additional cooperative initiatives such as a uniform health benefits and 401K retirement plans for NAF employees, an executive agent for the management and administration of slot machines overseas, and construction of MWR and resale facilities.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Quality of Life Review

Question: DoD recently undertook a comprehensive review of military quality of life. What were the major findings of the review as it relates to the MWR and resale program and what actions are you taking to ensure that the MWR and resale program contributes to military quality of life?

Mr. Pang: MWR programs create the American hometown wherever American troops are stationed around the world. Of all the major programs offered by MWR, physical fitness is a priority program. The Department will conduct a thorough review of physical fitness facilities, to include equipment, hours of operation, and their location to ensure they are readily accessible to junior enlisted personnel and of high quality. Quality of Life initiatives in the areas of youth activities, youth athletics, youth employment, and library services will expand to meet the needs and expectations of the military community.

The exchange service programs are a vital component of the Department's resale mission. The exchange services provide not only value and distinction in both merchandise and service to their patrons, but also are important sources of revenue to support MWR programs. In response to customer and military community need for additional medical services, the exchanges initiated a medical concessions program that encompasses dental, optometry, and pharmacy services at the local exchange level. Since the inception of these services customer acceptance and response has been favorable and exceptional.

We are reassessing the optimal structure to deliver the exchange benefit to allow dividends to continue to flow to MWR programs and keep prices affordable.

The other vital component of the Department's resale mission and a critical aspect of quality of life is the commissary. Commissaries help support the standard of living for service members and their families stationed both overseas and in the United States. Overseas, military commissaries are often the only source of American products and are the only convenient source in remote areas of the United States. Recent surveys show patrons average 29 percent savings when compared to commercial retail stores. Military members value the commissary as one of the most important elements of nonpay compensation.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Base Closure Funding

Question:

- What has been the experience in gaining base closure and realignment funding for MWR projects?
- What has been the total NAF investment in facilities which have been turned over in the BRAC process? What has been the experience in recouping this investment?

Mr. Pang: To date, the Department has not received any BRAC funding for MWR projects. The Department estimates the total book value of commissary, exchange, and MWR real property turned over in the BRAC process exceeds \$162.7M. This number is expected to grow as installations continue to close and decisions made on what MWR and resale facilities remain in use.

Currently, any proceeds that might accrue from the sale of commissary, MWR and exchange NAF real property at BRAC sites must be deposited in a Treasury account, and can only be accessed through the appropriations process. While no funds have been deposited to this account, included in the Department's FY 97 legislative package is a proposal that would eliminate the Treasury account appropriations process, and replace it with a commissary surcharge fund account or the appropriate military department NAF account. Under the proposed legislation the Secretary of Defense would distribute the proceeds from the sale of these NAF real properties.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Uniform Health Plan

Question: Has any progress been made on establishing a single, uniform health plan for nonappropriated fund employees?

Mr. Pang: We are moving forward on establishing a single, uniform health plan for NAF employees. The various NAF health plans have provided necessary data to our contractor, Hay Huggins Company, who will provide a preliminary report by the end this month on options for establishing the uniform plan. The key question is whether the larger pool of employees will enable a net improvement in health benefits for all NAF employees.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Credit

Question: The committee has asked for a report on the impact of extending credit to military personnel. When may we expect this report?

Mr. Pang: Last year the Department contracted with Systems Research and Applications (SRA) Corporation to assess the overall value of the exchange credit programs and identify opportunities to improve their operations. We have just received SRA's final report and are in the process of reviewing their proposals. Once our review is complete, we will forward to you the report and our implementation plan. You can expect the report within 90 days.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Public/Private Ventures

Question: We have noted some movement in the establishment of public/private ventures (PPVs). Should we expect an increase in these types of programs? Can you give us some examples of experience with these types of ventures?

Mr. Pang: The Department encourages the Services to pursue public/private ventures (PPV's) whenever feasible. With most PPVs a contractor constructs a facility and operates the activity for a specific period, usually 10 years. At the end of this period, the facility is turned over the NAF activity. Using industry standards, the contractor, can typically construct a facility in a fraction of the time required for NAF or MILCON projects with no expenditure of nonappropriated or appropriated funds. In determining the merits of a PPV, the NAFI must weigh the merits of the cost of capital to the potential of forgoing a portion of the revenue stream from the project.

The Services, especially the Army and Navy, have vigorously pursued PPV construction projects for car washes, marinas, golf courses, food courts, gas stations, and fast food facilities. Recently, the Army awarded a contract for a multiplex theater PPV construction project at Fort Benning, Georgia. The Army is also exploring the viability of pursuing a golf course PPV at Fort Story, Virginia. PPVs clearly work for the Department-providing our service members with Quality of Life services and programs that we could not otherwise afford. I would expect to see us continue and probably increase this delivery model.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

BX Marts

Question: The Fiscal Year 1996 National Defense Authorization Act included authority for up to 10 BX marts and furthermore stated that DoD could use 25 percent of the appropriations that were provided to the commissary before the commissary closed in order to support the BX marts. What progress has DoD made in implementing this provision?

Mr. Pang: There are two BX Marts currently in operation: NAS Forth Worth, TX (formerly Carswell Field) and Homestead ARB, FL. These operations have marginal results but their financial posture is promising. The Panel has approved two other installations for exchange marts: Fort Devens, MA and March AFB. In its current application, the concept allows the Department to continue to offer a commissary and exchange benefit at closure sites.

We are trying to determine if the use of appropriations will yield a positive return at closed sites for the remaining population and at active bases where the option is for no commissary benefit at all.

MAJ.GEN. RICHARD BEALE, JR., USA
DIRECTOR,
DEFENSE COMMISSARY AGENCY
(DeCA)

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

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HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

PBO

Mr. Sisisky: General Beale: Under the proposed DeCA Performance Based Organization (PBO), does the Department of Defense plan to ask Congress for relief under Title 10 USC to increase the price of any products currently sold in commissaries at cost plus five percent.

- What commodities have been identified for price increases?
- Is DeCA considering a variable pricing scheme for the commodities that have been identified for price increases, or an across-the-board percentage price increase? Please identify the categories and how price increases will apply to each category?
- How were the price increases determined and what are DeCA's business objectives, i.e., to maximize profits, to provide the best possible price to patrons, and how will quality be related to price?
- Will industry be given an opportunity to provide input, suggestions, and marketing expertise as anticipated pricing changes are formulated.

General Beale: The PBO is an initiative aimed at gaining management and administrative efficiencies by applying business principles and deregulating processes. Any price increases would not be part of the PBO. Rather they would be considered under the normal procedures that would entail consultations with Congress.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

PBO

Mr. Underwood:

- In your testimony you mentioned that DeCA has saved millions of dollars over the past few years through streamlining of your operations. However, you also stated that DeCA has almost reached the threshold of savings. What incentives do you need to save more within DeCA without going to PBO status?
- Has the DeCA savings been used for any improvements in the commissary benefits provided for service members or is it reallocated for other purposes within the DoD budget?

General Beale: DeCA has a responsibility for the stewardship of taxpayer dollars that Congress provides for delivering the commissary benefit to military members and their families. In fulfilling this responsibility, we have exceeded the expectations of commissary consolidation by implementing many more efficiencies at all levels to include reducing unnecessary overhead within the confines of current policy and legislation. At the same time, we have improved service levels, product variety, product availability and the level of savings to the commissary patron. The opportunity to be a performance based organization (PBO) will allow DeCA to go to the next level in delivering the commissary benefit in an efficient manner. The PBO provides the vehicle to achieve efficiencies that would not be available to DeCA if pursued individually. As a PBO, DeCA will be able to simultaneously pursue a number of waivers to policies that will further improve service and reduce costs. Additionally, prudent changes to legislation can be pursued over the PBO demonstration period that will continue to meet the intent of Congress but provide further opportunities for increased efficiencies in delivering the commissary benefit. We believe this can be done concurrently with reducing the level of tax dollars.

DeCA savings have been used to reduce the dependence on appropriations and to our knowledge they have not been reallocated for other Department purposes. Those savings were reflected in reduced appropriation requests submitted to Congress by the Department. However, a portion of the initial savings from consolidation of the four Military commissary systems and a portion of the additional savings DeCA achieved from streamlining and reducing overhead were reinvested back into the system to improve service levels and patron savings. In DeCA's first year of business, 179 of the 411 commissaries had operating hours extended through reinvestment of some of the consolidation savings.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

DeCA Nomination to be a Performance Based Organization

Question: The Administration has proposed that the Defense Commissary Agency be established as a performance based organization. Please describe how the new organization would differ from the current system.

General Beale: As a performance based organization, the agency expects to be able to operate with greater flexibility to manage its operations in a more efficient manner, while at the same time reducing the taxpayer cost of delivering this service. DeCA's organizational structure would be similar to the current structure, but would continue to be streamlined as we reengineer our processes and implement our ongoing automation initiatives.

As a performance based organization, the agency will be able to set forth clear measures of performance, hold the head of the organization clearly accountable for achieving results, and have the head of the agency granted the authority to deviate from changes will involve structural changes as well as changes in incentives affecting federal employees.

A three to five year agreement between the agency and the Department of Defense will set out explicit goals, measures, relationships, flexibilities, and limitations for the agency. The agency would be given the authority to negotiate alternatives, approvals for procurement improvements, civil service rules, etc. This flexibility would be tied to increased accountability for results, and achieving productivity and customer service goals, as well as budgetary savings.

The chief executive of the agency would be appointed or hired for a fixed term with a specific agreement on services to be delivered and productivity goals achieved. DeCA would continue its traditional relationship with the Department of Defense and appropriate congressional panels for oversight, reporting, and accountability purposes. The process would ensure funds intended for commissary support by Congress would be efficiently applied.

The PBO structure would provide the operational flexibility and authorities DeCA needs to operate more effectively, using commercial-like business practices, while maintaining the value of the commissary benefit.

Under the concept of a PBO, DeCA would operate more like a business organization with a Chief Executive Officer (CEO) and concrete production or performance goals. The operations of DeCA will be separated from the policy functions of the Department. DeCA would continue its traditional relationship with the Department of Defense and appropriate Congressional panels for oversight, reporting, and accountability purposes. DeCA would negotiate a multi-year

contract with DoD. The agreement will lay out specific quantifiable goals. Relief and/or waivers would be requested from certain regulatory and statutory requirements in order to operate more like a commercial business at realistic costs. The CEO would serve under the fixed term contract. The success and future viability of the agency would be dependent on achieving the contract goals by the end of the contract period

Question: What specific advantages does a PBO have over DeCA? Why can't DeCA be given the requested management reforms without becoming a PBO?

General Beale: The performance based organization concept will let DeCA be part of a government-wide process to achieve efficiencies and savings that far exceed what would be expected through individual departmental or legislative changes.

DeCA is currently working with other PBO candidates from other government agencies as part of the PBO process, exchanging information which will allow DeCA to develop as complete and comprehensive a package as possible. PBO "templates" addressing specific waivers and exceptions for personnel and acquisition have been prepared by the Office of Personnel Management (OPM) and Office of Federal Procurement Policy (OFPP) to be used by all PBO candidates in developing their framework documents.

In some cases, specific waivers will be requested as required. The approval of DeCA as a PBO will expand the agency's capability to participate in demonstration projects to explore and test new human resources management concepts, transforming the workforce to make it more effective in a balanced budget environment. The PBO process allows DeCA to develop a results-oriented acquisition program that includes quantitative and qualitative measures and standards. The acquisition system will be less bureaucratic, with much shorter procurement lead time and more cost effective processes.

The development of more commercial-like accounting practices will be both efficient and provide significant flexibility. The PBO process provides DeCA the capability of taking the next step to becoming more efficient through the elimination of bureaucratic processes and red tape and to secure the value of the commissary benefit. It is the only vehicle available to bring all of the needed changes and reforms together in a single package, that will allow DeCA to achieve significant efficiencies and preserve the value of the commissary benefit, while concurrently reducing the burden on the American taxpayer.

PBO status will not replace DeCA as an agency, but will enhance DeCA's capabilities to carry out its mission of providing authorized categories of goods and services at the lowest practical price, with no degradation of the commissary benefit as it is currently provided. It will provide the agency the opportunity to pursue initiatives that will move us to the next level in working towards more efficient operations. Under PBO status, the agency expects to be able to focus more effectively on its mission in a stable environment, without being side-tracked by the continuing challenges of privatization or consolidation.

PBO status will provide for a predictable way of doing business and allow for more effective planning and achievement of a stable end state over a multi-year period. Today DeCA must manage under certain financial, personnel, and acquisition rules, some of which are regulatory in nature and some of which are the result of specific legislation. The PBO concept promotes competition and improved ways of doing business as an incentive to achieve. It provides a more integrated focus of our efforts. It is expected that some of the savings which will be achieved will be reinvested into the commissary program to improve customer service and reduce the cost of providing the commissary benefit.

Question: Under the PBO concept, will the stock assortment in the commissaries remain the same, shrink or increase? To the extent that the commissaries sell items that heretofore have been sold only in exchanges, what will be the impact on the exchanges and how will any losses to MWR funds be addressed?

General Beale: There is no intent to add categories to those currently authorized. However, as our category management plans are implemented the stock assortment within categories may change. A concept being developed in the grocery industry, "category management" seeks to put the right product, at the right price, in the right place, in the right amount on the shelf to meet the patron's needs. This is accomplished when our category managers make decisions on all similar items in a category instead of focusing on a single product traditionally followed in the grocery industry. All of the products carried in our stores are divided into distinctly manageable groups, for example, ready to eat cereal. Instead of just buying the lowest priced items, our buyers seek the largest savings for the highest volume sellers in a category. This practice has not only improved our buying practices and reduced our industry partner's costs, but also played a significant role in achieving the tremendous savings reported in our 1996 Market Basket Survey. Both industry and DeCA are excited about the further potential of category management which seeks to drive excess costs out of both the manufacturer's and the retailer's business.

Category management should not have any impact on exchange sales or MWR.

Question: Please identify for the Panel the changes in law that are required to generate the expected savings associated with the PBO concept. Who would be most affected by those changes?

General Beale: DeCA and the Department are working diligently to determine what efficiencies can be gained by administrative and legislative changes. We are examining the impact of the legislative templates provided to DeCA by the Vice President's office in the areas of personnel and acquisition to determine if the templates recognize the unique nature of DeCA, the largest resale activity in the Federal government. DeCA must adopt personnel practices similar to the grocery industry in the United States, and changes in the acquisition laws must support the purchase of resale goods, supplies, and support services.

Preliminary analysis has shown that there are areas of the law that, if either changed or which exempt DeCA from compliance, potentially could generate savings in operating costs and support the efforts to obtain the lowest possible price for DeCA patrons. An additional concept

for consideration is to set DeCA up as a test program to determine the impact of other ways for the government to do business and, without changing the law, determine what legislative changes offer an opportunity to make doing business with the government faster and cheaper.

Laws currently being evaluated as impacting on DeCA and its cost include:

Javits-Wagner-O'Day which is the foundation of the NISH program and the increasing costs being absorbed by DeCA.

Service Contract Act which is the foundation of the Wage Determination process that is increasing contract costs.

Davis-Bacon Act which is the foundation of increasing cost of construction which is paid with surcharge funds.

Authority to invest surcharge funds in securities issued by the United States to generate interest income for that account similar to other federal agencies current authority.

Elimination of the requirement to ship commissary resale merchandise and operating supplies to overseas locations on US flagged ocean-going vessels.

Revision of the statutes which govern contracting out functions being performed by government employees which will streamline an existing cumbersome system of study and reporting requirements.

Exempt commissary operating equipment from the Federal Property Management Act this allowing DeCA to purchase the equipment similar to a commercial supermarket.

Modification of the small business statutes to allow DeCA to contract directly with minority owned (8a) firms.

Exempt DeCA from socioeconomic set aside programs.

Exempt DeCA resale merchandise contracts from socioeconomic set asides.

Labor laws impacting the cost of operations such as premium pay requirements for working on Sunday.

Laws relating to compensation of employees such as creating "pay banding" and graduated benefits authority for DeCA employees.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Mattress Decision

Question: In testimony before the Panel last year, you identified the "Mattress Decision" as an obstacle to exploiting cooperative efforts between exchanges and commissaries to generate efficiencies and save resources. As you know, we addressed this issue in the FY 96 Defense Authorization Act by providing DeCA authority to enter into contracts with other DoD agencies, instrumentalities, or other federal agencies to provide services which result in efficient operation of the commissary system. What cooperative initiatives are planned or underway as a result of this new authority?

General Beale: We believe the relief you provided in the FY 1996 Defense Authorization Act will improve DeCA's business relationship with DoD NAFLs by allowing good business cooperation between DeCA, the Exchanges and MWR activities. We have identified and are evaluating several concepts which may enhance DeCA's and the DoD resale community's business opportunities. For example, the excess AAFES satellite capacity might be a viable alternative to train DeCA employees over AAFES "Business TV" in many of our locations. We are also evaluating the use of the AAFES in store radio. The benefit from the relief you granted is that for the first time it allows DeCA to consider NAF availability when the terms are more favorable than those obtainable in a competitive proceeding. Another area ripe for efficiency is those common services required in the resale community. For example, while there are systems compatibility issues among the resale members, we are pursuing a consolidated bad check list for all resale activities. Other areas under consideration are personnel, construction, telecommunications, and distribution. Under this concept we anticipate DeCA and the NAFL's would enter into non-competitive agreements to share the services all require.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Commissary/Exchanges Transport of Supplies Overseas

Question: The FY 1996 Defense Authorization Act contained a provision to allow the commissaries and exchanges to negotiate directly with private carriers for the most cost-effective transportation of supplies to overseas locations without relying on the Military Sealant Command or Military Traffic Management Command. What are the costs to DeCA associated with using the Defense Transportation System?

General Beale: DeCA's overseas sea transportation expenditures for FY95 were approximately \$84 million. DeCA has not yet determined the overhead cost attributable to the Defense Transportation System. However, the GAO in its "Defense Transportation: Streamlining of the U.S. Transportation Command is Needed" report, Feb 1996, found that the cost of shipping DeCA's goods were approximately double the commercial rate to Europe (\$3292 for TRANSCOM versus \$1712 for low rate carrier) and triple the commercial rate to the Far East (\$3815 for TRANSCOM versus \$1267 for low rate carrier). Using the GAO figures, DeCA paid a minimum excess cost of \$25.5 million for the 25,500 vans it shipped in FY95.

A legislative proposal for repeal of this provision is contained in the Department's FY 97 legislative package. Meanwhile, we are establishing a mechanism to remove the "readiness premium surcharge" from the overseas transportation costs for exchanges and commissaries. DoD is endeavoring to reduce overall transportation overhead costs through reengineering of the transportation function.

QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Defense Commissary Information System

Question: What is the status of the Defense Commissary Information System? Will it deliver all that was promised?

General Beale: The DCIS contract was awarded on July 31, 1995 by Air Force Standard Systems Center, the Program Management Office. The contractor, CSC, proposed a commercial system developed and used by Shaw's Grocery Chain, supporting 90 stores and three central distribution centers in the New England area. CSC also proposed to make the system more user-friendly by adding a Windows-like graphical user interface (GUI), to upgrade the operating system, and to add other commercially available packages to replace mainframe processes like accounting. Although CSC proposed having 29 knowledgeable people in place at contract award, staffing up and building CSC understanding of the Shaw's system has been a slow process. Consequently, start-up time has been dedicated to getting both government and CSC people knowledgeable on Shaw's system, and defining the requirements for all of DCIS, Shaw's plus other packages for store, warehouse and corporate functions.

CSC proposed an initial operating capability (IOC) within 18 months of contract award. In October, DeCA changed the IOC site from the Northwest Pacific Region including Okinawa to the Northeast Region, streamlining the requirements for IOC by eliminating the warehouse module. At the February joint program management review, CSC briefed a schedule slip of approximately six months. This schedule slip, coupled with a projected cost overrun, caused the Commander, Air Force Electronic Systems Command, Lt Gen Franklin to call for monthly IPRs on the program.

The get-well plan resulting from the first IPR, held on March 23, 1996, included completing the functional requirements baseline and a master program schedule that adhered to the original 18-month IOC. The contractor and the government have finished an exhaustive review of DCIS capabilities and have produced the baseline functional requirement that includes the information necessary to begin the development of the interfaces and the tailoring of the commercial software. The baseline functional requirement also provides the basis for generation of an integrated program schedule. Continued active management and visibility at Commander level will ensure the program stays on schedule and within cost.

DCIS, as proposed by CSC, will deliver all that was promised. Shaw's system, that constitutes the core, but not the complete DCIS system, does support commercial grocery practices. But CSC must upgrade the Shaw's system, integrate the other commercial packages and develop the government interfaces.

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QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Construction Validation

Question: The Panel has consistently urged the DoD to employ outside consultants to validate the construction requirements for the armed services MWR programs. Are there validations binding or can the services deviate from the consultant's recommendations?

General Beale: DeCA is working very closely with the DoD IG (acting in the role of an outside consultant) to validate and improve its processes related to construction requirements. It is anticipated that this effort will be completed by the end of the Third Quarter, FY96. Specifically the issues being addressed are as follows:

a. **Store Sizing Methodology:** DeCA is working closely with industry to develop and refine a model that can be used to determine sales area requirements. The model is based on the volume and category of products being sold at a particular location.

b. **Sales Forecasting Methodology:** Step-wise regression analysis is being used to determine the best combination of independent variable to use as predictors of future sales.

c. **Survey Techniques:** In cases where the predictive model does not provide a clear cut sales projection a survey of patrons and/or potential patrons may be required to ensure that requirements are correctly defined. DeCA is working with the DoD IG to define the most appropriate survey methods, survey questions, and sampling techniques.

For large projects we intend to obtain outside consultant validation, especially in areas where synergy with exchanges is indicated as advantageous.

MAJ.GEN. A. DOUG BUNGER, USAF
COMMANDER,
ARMY-AIR FORCE EXCHANGE SERVICE
(AAFES)

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

MARCH 27, 1996
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ON

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QUESTIONS FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE HEARING ON MARCH 27, 1996
EXCHANGES, DeCA, AND MWR

Distribution of Distilled Spirits

Mr. Chambliss: I would like to raise an issue with you relative to language included in the FY 96 authorization Bill, now only recently signed into law, that involves the issue of distribution of distilled spirits. Last year, the Congress required that the exchanges consider the full range of costs associated with distribution of spirits. The intent of this Member of the Committee was to ensure that we FAIRLY compare the costs between the present system of distribution, and alternatives which include procurement of spirits from local distributors.

All of this needs to be weighed against the benefit to the service member, specifically, selection and availability.

Can you please estimate for me the cost, for example, for you to transport spirits from distillery to distribution center to retail outlet? If not, I would gladly receive those figures for the record. Also discuss this issue of distribution of spirits and what system best meets the needs of the service man and woman.

General Bunger: In its fiscal year ended in January 1996, AAFES obtained 52% of its CONUS distilled spirits from distributors and 48% (\$65M) from distillers via distribution centers. The cost to transport and store the distiller sourced spirits was \$1,534,000 or \$2.38 per case. These costs are consistent with those previously reviewed by Deloitte & Touche LLP (\$2.44) and found to include all cost of distribution.

AAFES Class Six stores obtain spirits from distributors or from AAFES distribution centers/distillers depending on obtaining the lowest product cost including the full costs of distribution. In their March 1995 report to the Deputy Assistant Secretary of Defense on exchange distribution of distilled spirits, the accounting firm of Deloitte & Touche LLP stated "the savings generated from these sourcing and distribution decisions provide for either a greater contribution to the MWR funds or a lower price to the Soldier, Sailor, Airman, and Marine."

CAPT. BRUCE R. BENNETT
ACTING COMMANDER,
NAVY EXCHANGE SERVICE COMMAND
(NEXCOM)

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

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DISTRIBUTION OF DISTILLED SPIRITS

Mr. Chambliss: I would like to raise an issue with you relative to language included in the FY 96 Authorization Bill, now only recently signed into law, that involves the issue of distribution of distilled spirits. Last year, the Congress required that the exchanges consider the full range of costs associated with distribution of spirits. The intent of this Member of the

Committee was to ensure that we could FAIRLY compare the costs between the present system of distribution, and alternatives which include procurement of spirits from local distributors.

All of this needs to be weighed against the benefit to the service member, specifically, selection and availability.

Can you please estimate for me the cost, for example, for you to transport spirits from distillery to distribution center to retail outlet? If not, I would gladly receive those figures for the record. Also, discuss this issue of distribution of spirits and what system best meets the needs of the service man and woman.

CAPT Bennett: The Navy Exchange System uses both distributors and Navy Exchange distribution centers for supply of distilled spirits. Approximately 50% of our distilled spirits are procured from local distributors.

In some areas, however, due to store size and geographic locations, it is more cost effective to warehouse. In these cases, we earn approximately 2% more gross margin on merchandise purchased directly from distillers.

Procuring from distillers has other advantages beyond cost. Within the Navy Exchange System, stores

vary greatly in size and customer demographics. Through warehousing of distilled spirits, all stores, no matter what size or geographic location, can receive deliveries at least twice a week from Navy Exchange distribution centers with no minimum order requirements. Navy Exchange stock assortments can be as narrow or broad as the customer base demands. By receiving deliveries twice a week, store inventory levels can be managed more effectively.

NEXCOM will continue to look at distribution on a case by case basis to ensure the most cost effective and efficient method which will best benefit our service members.

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 QUESTION FOR THE RECORD

CONSTRUCTION VALIDATIONS

Representative McHugh: The Panel has consistently urged the DoD to employ outside consultants to validate the construction requirements for the armed services MWR programs. Are these validations binding or can the services deviate from the consultant's recommendations?

CAPT Bennett: The Navy Exchange System does not currently utilize an outside consultant to validate construction requirements. Projects go through an extensive validation process, requiring a review at all levels of the Navy chain of command - local command, Navy Exchange Service Centers and major claimants. The Navy Exchange headquarters evaluation process utilizes merchandising, operational, financial and engineering functional specialists. Projects are analyzed using criteria such as return on investment, sales per square foot and fact of life considerations. Projects are then validated by the MWR/NEX Board of Directors, consisting of senior Navy leadership. These levels of project validation have been successful and ensure sound project evaluation without adding additional costs to the project scope.

HOUSE NATIONAL SECURITY COMMITTEE
HEARING ON: IMPROVED EFFICIENCIES IN OPERATION OF
EXCHANGES,
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QUESTION FOR THE RECORD

LOANS

Representative McHugh: What is the extent of your borrowing from internal funds and from external funds or commercial banks? What is the borrowing used for?

CAPT Bennett: NEXCOM's loan agreements allow borrowing for general corporate purposes. Bank borrowings can and are used to fund accounts receivables such as NEXCARD receivables, inventories, capital expenditures and other requirements. As of the beginning of Navy Exchange fiscal year 1996, bank borrowings were \$113 million. These were used in support of NEXCARD accounts receivable and inventories valued at \$479 million, with internal capital supplying \$366 million.

HOUSE NATIONAL SECURITY COMMITTEE
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QUESTION FOR THE RECORD

DIVIDENDS

Representative McHugh: We have learned that dividends from the exchange services have been reduced due to force structure reductions and reduced sales. Would each of you describe the extent of these decreases on your programs and what has been the impact? How do you intend to make up for these shortfalls?

CAPT Bennett: Over the period of FY91 - FY94, based on the NEX fiscal year, there has been a 18% decline in military personnel and a 21% decline in dividends to MWR. The level of decline has been proportionate to the decrease in force reductions and has allowed the Navy Exchange System to retain sufficient capitalization funds for physical plant recapitalization and modernization of our ADP systems.

The ADP modernization effort will maximize future MWR dividends by increasing Navy Exchange efficiencies and profitability.

The requirement for NEX dividends to support MWR operations has also changed. With force reductions, the MWR program itself has downsized, reducing the requirement for Navy Exchange dividends to fund MWR operational requirements.

BRIG.GEN. JAMES R. JOY, (RET.)
DIRECTOR,
MWR SUPPORT ACTIVITY
U.S. MARINE CORPS

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

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ON

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HOUSE NATIONAL SECURITY COMMITTEE
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QUESTION FOR THE RECORD
QUESTION # 11a

Mr. Chambliss: I would like to raise an issue with you relative to language included in the FY96 Authorization Bill, now only recently signed into law, that involves the issue of distribution of distilled spirits. Last year, the Congress required that the exchanges consider the full range of costs associated with the distribution of spirits. The intent of this Member of the Committee was to ensure that we could FAIRLY compare the costs between the present system of distribution, and alternatives which include procurement of spirits from local distributors.

All of this needs to be weighed against the benefit to the service member, specifically, selection and availability.

Can you please estimate for me the cost, for example, for you to transport spirits from the distillery to distribution center to retail outlet? If not, I would gladly receive those figures for the record.

General Joy: Because Marine Corps exchanges are structured differently from our sister services, in that we are decentralized, the distribution issue is somewhat more complex for us. Our decisions on where to purchase distilled spirits or any other retail merchandise is based on which source can offer the lowest landed cost. The factor normally used to determine lowest landed cost is product cost plus freight.

A process review of distilled spirits procurement was conducted at two large commands by Deloitte, Touche in 1995. The Distilled Spirits Procurement Process Review of that year determined that the Marine Corps exchange procurement of distilled spirits is accomplished in the most cost-effective manner possible. Price comparisons provided by the contractor showed local distributor costs were 36% higher than if ordered from the distillers and 33% higher than if ordered from NEXCOM/AAFES distribution centers. These costs are included: product cost, freight, taxes, and handling and receiving charges. Our MIS system does not presently provide for a cost breakout per case of distilled spirits.

Many factors impact on the delivered cost of distilled spirits. Chief among them is the impact of state sales or excise taxes, which would appreciably lower the dividend to MWR recreation through increased cost.

HOUSE NATIONAL SECURITY COMMITTEE
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QUESTION FOR THE RECORD
QUESTION # 11b

Mr. Chambliss: I would like to raise an issue with you relative to language included in the FY96 Authorization Bill, now only recently signed into law, that involves the issue of distribution of distilled spirits. Last year, the Congress required that the exchanges consider the full range of costs associated with the distribution of spirits. The intent of this Member of the Committee was to ensure that we could FAIRLY compare the costs between the present system of distribution, and alternatives which include procurement of spirits from local distributors.

All of this needs to be weighed against the benefit to the service member, specifically, selection and availability.

Also, discuss this issue of distribution of spirits and what system best meets the needs of the service man and woman.

General Joy: Marine Corps exchanges are chartered to offer goods and services to Marines at the lowest possible cost and return any profits to Marines in the form of dividends to support recreation and leisure programs. Because of this, our view toward the delivery of any product or service is that it be something a Marine wants to buy at a price that represents a substantial saving. This means that it is in our interest to serve our customers by procuring merchandise at the lowest possible cost. This makes our exchanges a truly significant non-pay benefit to the service member.

We are able to offer distilled spirits and other goods to our customers at good savings because we have the flexibility to buy from a variety of sources; local, national, and sister service distribution centers. We pass these savings to our customers in the form of low prices.

Because of our size and mission, we are naturally cautious about "one size fits all" solutions that could unduly restrict us from obtaining goods at bargain cost that is advantageous to our customers. Our experience in states such as Hawaii, that mandate within-state purchasing is sharply lower earnings due to state excise taxes. This directly reduces the dividend that supports MWR programs and services to Marines and their families.

The exchange benefit is a major non-pay benefit for Marines.. The ability of our exchanges to procure spirits from AAFES and NEXCOM distribution, and, where more cost effective, from other sources, levels the playing field and gives our package stores the lowest possible price, lowest inventory, and best in-stock efficiency. This truly best meets the needs of our Marines.

BRIG.GEN. JOHN G. MEYER
COMMANDER,
ARMY COMMUNITY AND FAMILY
SUPPORT CENTER
U.S. ARMY

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

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QUESTION # 9

FAMILY ASSISTANCE CENTERS

Mr. Chambliss: Throughout this Committee's process of hearings and testimony leading up to the creation of its annual authorization bill, we continue to search for ways of "readying" our troops for the missions they are called to serve. We speak in terms of making troops "deployable". But in my travels over the last year and a half, I have recognized the importance of the family to this nation's military. If you were to tell me 20 years ago that we could sustain an all volunteer force and still retain the quality individual I see in every branch of the service, I would not have believed you. But at the very heart of this "new generation" of soldier, airman, seaman and marine is the family that supports him or her.

In a time when we are asking our military personnel to deploy more often to more places around the world, we must make that deployment as comfortable as we possibly can for the families left behind. I have been to Fort Stewart and seen, firsthand, the impressive Family Assistance Center they maintain to support deployments. Can you discuss the concept of the family assistance center and give me a status report on their effectiveness, particularly as it relates to the deployment of troops in Bosnia.

General Meyer: Family Assistance Centers (FACs) are activated by installation commanders during deployments and military contingency operations to serve as one stop agencies to coordinate support for deployed soldiers and their families. Key installation support agencies such as Army Community Service, Finance, Legal Assistance, CHAMPUS, Adjutant General, Red Cross, Public Affairs, and chaplains are brought together under one umbrella agency to assist soldiers and their families. They provide immediate essential services such as crisis intervention, legal assistance, financial service, information and referral, ID card issuance, and enrollment of families into CHAMPUS. Family Assistance Centers were established at every installation in CONUS and Europe where troops were deployed to Bosnia. Feedback from customers indicates that FACs have been very effective in serving as a safety net in assisting families in adjusting to separation.

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QUESTION # 10

BRIGADE RECREATION SPECIALISTS

Mr. Chambliss: Also, in your printed remarks, you discuss what you term "Brigade Recreation Specialists." Can you explain for me this concept and pass on its effectiveness?

General Meyer: Commanders at all levels are responsible for the morale, welfare, and recreation support provided for their soldiers and civilians. In order to meet these needs, commanders may identify appropriate civilian positions within Morale, Welfare and Recreation (MWR) to be prepared to deploy into a theater of operations to support recreation requirements. These personnel will plan and coordinate MWR activities prior to and during mobilization. They will also deploy with the units to fulfill MWR responsibilities and assist unit MWR coordinators (military personnel) in planning and executing their MWR programs. USAREUR deployed twenty Brigade Recreation Specialists (BRS) as part of Operation JOINT ENDEAVOR. The BRS are serving as experts for contracting, repair of equipment, and hiring and training local national personnel to assist with the sports, recreation, and arts and crafts programs. BRS in the field report that programs are well received throughout the theater of operations.

QUESTION FOR THE RECORD
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QUESTION # 37

DIVIDENDS

Question: We have learned that dividends from the exchange services have been reduced due to force structure reductions and reduced sales. Would each of you describe the extent of these decreases on your programs and what has been the impact? How do you intend to make up for these shortfalls?

Answer: For Fiscal Year 1995, the Army's core dividend was 23 percent less than the original exchange service plan. The revised forecast for Fiscal Year 1996 projects the dividend to be 43 percent lower than previously budgeted. Out-year forecasts are being revised by the exchange. Every indication is that Fiscal Years 1997 - 2000 will reflect similar shortfalls when compared with previous master plans.

These shortfalls are projected to cause a significant deterioration to the Army's financial position, particularly during Fiscal Years 1997-1998. There is no other available source of funds to make up shortfalls of this magnitude (as much as \$70 million Fiscal Years 1995 - 1999). Rather, the Army has instituted spending limitations on field activities, prohibited any new initiatives, and will closely monitor the situation to determine if additional contingent actions are necessary.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MORALE, WELFARE AND RECREATION PANEL
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QUESTION # 38

CONSTRUCTION VALIDATIONS

Question: The Panel has consistently urged the DoD to employ outside consultants to validate construction requirements for the armed services MWR programs. Are these validations binding or can the services deviate from the consultant's recommendations?

Answer: Projects costing \$500,000 or more must have a commercial Project Validation Assessment (PVA). These recommendations are binding, however, there are occasions when other factors affecting the project conflict with the PVA recommendations. To resolve these conflicts, both the PVA and the installation's alternate recommendation are briefed at the Construction Review Board (CRB). The CRB considers the merits of both recommendations and makes a decision that is in the best interests of the Army.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MORALE, WELFARE AND RECREATION PANEL
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QUESTION # 39

HIGH-QUALITY FITNESS CENTERS

Question: DoD's Quality of Life Task Force identified the importance of high-quality fitness centers on military installations and aboard ships to morale, personnel recruitment and retention, and overall readiness. It noted the special importance of these fitness centers to the quality of life of single, junior enlisted service members. However, the Panel found that there are too few quality fitness centers on DoD installations and aboard ships. Staffing problems were also identified with centers being operated with borrowed military manpower. Please comment on what is being done to address these issues. Does the FY 1997 budget request adequately fund this requirement? If not, what is the shortfall?

Answer: The U.S. Army emphasizes total fitness to meet its mission requirements. The Fiscal Year 1997 Military Construction, Army (MCA) budget does not contain any funding for the construction of physical fitness centers. Although facilities continue to need renovation/replacement, scarcity of resources and higher Army priorities have prevented the allocation of MCA dollars for construction of physical fitness centers. Given current priorities and funding levels, the Army projects that it will execute \$94 million for fitness center construction in Fiscal Years 2000 and 2001.

Fitness centers are Category A, Mission Essential activities, and some are staffed with Borrowed Military Manpower (BMM). DoD and Army policy directs that fitness centers be operated with APF. Additional construction, renovations, and manpower authorizations required to support the program with additional operating hours compete for resources along with other Army priorities.

QUESTION FOR THE RECORD
HOUSE NATIONAL SECURITY COMMITTEE
MORALE, WELFARE AND RECREATION PANEL
MWR ISSUES
27 MARCH 1996

QUESTION # 40

THAYER HOTEL

Question: What is the current status of the effort to upgrade the Thayer Hotel?

Answer: The Assistant Secretary of the Army for Manpower and Reserve Affairs requested that the Community and Family Support Center secure outside legal advisors to review the deal for consistency with Army objectives of risk mitigation. The deal was determined to equitable balance development risk, and the contract documents were subsequently re-drafted in commercial terms to secure the most favorable commercial financing. The draft contract, issued March 15, 1996, may require minor changes as set forth by investors during their review. Once the total financing is in place (approximately 45 days), the final contract and financing documents will be executed simultaneously. Transition of the hotel operation will occur within the subsequent 90 days. Concurrent with the developer's intent to secure project financing, the Army has sought a rating of the Army Morale, Welfare and Recreation Fund (AMWRF) by Standard and Poors (S&P). In the event that S&P is unable to provide an acceptable rating of the AMWRF, the developer is prepared to seek private/institutional financing at less advantageous interest rates.

QUESTION FOR THE RECORD
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27 MARCH 1996

QUESTION # 41

OPERATION JOINT ENDEAVOR MWR EFFORTS

Question: What is being done to address the morale, welfare and recreation needs of the soldiers deployed in support of Operation JOINT ENDEAVOR?

Answer: The U.S. Army, Europe support plan currently targets twenty-five locations for Morale, Welfare and Recreation (MWR) in the theater. MWR activities include fitness equipment and organized activities, board and table games, library support, and video cassette recorders/televisions. Brigade Recreation Specialists (BRS) are formally trained civilians who augment major deployable units, and deploy in support of the unit as soon as conditions permit. They provide programs to soldiers at seven locations and additionally supervise and logistically support the soldier operated activities at the remaining sites.

A Rest and Recuperation (R&R) program has been established for U.S. service members and DoD civilians serving tours of more than 180 days. A fifteen day absence is authorized with travel time as non-chargeable leave, and the remainder as chargeable leave. Transportation is furnished to Frankfurt, Germany, and at the option of the individual, on to Philadelphia, Pennsylvania. Further travel and recreation will be at the individual's expense.

There are several quality of life initiatives for soldiers deployed to Bosnia which the Army supports, but for which the Army is not the proponent. Stars and Stripes newspapers are available at all sites. Army and Air Force Exchange Service (AAFES) has eleven retail stores currently operating and will have some retail support at all sites as soon as logistics allow. AAFES-contracted commercial telephone service (American Telephone & Telegraph) to the United States and Germany is currently operating at fourteen sites, and twenty-five are scheduled to be operational in April.

BRIG.GEN. PATRICK O. ADAMS
DIRECTOR OF SERVICES
U.S. AIR FORCE

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

MARCH 27, 1996
HEARING RECORD

ON

MORALE, WELFARE AND RECREATION
ISSUES

INSERT FOR THE RECORD					
HOUSE	APPROPRIATIONS COMMITTEE	HOUSE	ARMED SERVICES COMMITTEE	X HOUSE	OTHER
SENATE		SENATE		SENATE	National Security Committee
HEARING DATE	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO.		
27 Mar 96			HN-21-001	Q 31a	

DIVIDENDS

UNCLASSIFIED

Question: We have learned that dividends from the exchange services have been reduced due to force structure reductions and reduced sales. Would each of you describe the extent of these decreases on your programs and what has been the impact? How do you intend to make up for these shortfalls?

Answer: Army and Air Force Exchange Service (AAFES) earnings were down considerably, both from the previous year and from their plan, for a variety of different reasons. As a result, dividends to the Air Force were cut by nearly \$20 million last year, a reduction of 26 percent from the year before. (The Air Force received \$56.9 million in FY95, compared to \$76.6 million in FY94.)

Air Force tried to insulate our base-level programs from the impact of these changes in AAFES profitability. The total amount distributed to the field did decline slightly; however, that primarily reflected the closure of a number of installations. Most bases received nearly as much as they had the year before.

Most of the dividend cut was absorbed by cutbacks in centrally-funded programs, as the portion of the dividend retained for Air Force-level use declined by 55 percent from the year before (\$12.0M in FY95 compared to \$27.1M in FY94).

Although AAFES expects both sales and earnings to increase this year, they project that dividends to the Services' MWR programs will drop even further.

UNCLASSIFIED

INSERT FOR THE RECORD

HOUSE SENATE	APPROPRIATIONS COMMITTEE	HOUSE SENATE	ARMED SERVICES COMMITTEE	X HOUSE SENATE	OTHER National Security Committee
HEARING DATE 27 Mar 96	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. HN-21-002	65710	

DIVIDENDS

UNCLASSIFIED

Question: We have learned that dividends from the exchange services have been reduced due to force structure reductions and reduced sales. Would each of you describe the extent of these decreases on your programs and what has been the impact? (How do you intend to make up for these shortfalls?)

Answer: Due to the drop in AAFES dividends, Air Force has completely canceled its proposed FY97 NAF construction program, and did not even issue a call for potential FY98 construction projects. Based on the extent and timing of future AAFES dividends, Air Force may be able to resume a limited NAF construction program in FY99 or FY00, although on a much more modest scale than we have in the past.

INSERT FOR THE RECORD			
HOUSE SENATE	APPROPRIATIONS COMMITTEE	HOUSE SENATE	ARMED SERVICES COMMITTEE
		X HOUSE SENATE	OTHER National Security Committee
HEARING DATE 27 Mar 96	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. HN-21-003
			Q 38

CONSTRUCTION VALIDATIONS

UNCLASSIFIED

Question: The Panel has consistently urged the DoD to employ outside consultants to validate the construction requirements for the armed services MWR programs. Are these validations binding or can the services deviate from the consultant's recommendations?

Answer: Air Force relies heavily on outside consultants to validate facility projects. Deviations from the consultant reports are permitted when they make good business sense or are required to comply with other restraints.

INSERT FOR THE RECORD

HOUSE SENATE	APPROPRIATIONS COMMITTEE	HOUSE SENATE	ARMED SERVICES COMMITTEE	X HOUSE SENATE	OTHER National Security Committee
HEARING DATE 27 Mar 96	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. HN-21-004	D 39(a)	

HIGH-QUALITY FITNESS CENTERS

UNCLASSIFIED

Question: DoD's Quality of Life Task Force identified the importance of high-quality fitness centers on military installations and aboard ships to morale, personnel recruitment and retention, and overall readiness. It noted the special importance of these fitness centers to the quality of life of single, junior enlisted service members. However, the Panel found that there are too few quality fitness centers on DoD installations and aboard ships. Staffing problems were also identified with centers being operated with borrowed military manpower. Please comment on what is being done to address these issues. Does the FY 1997 budget request adequately fund this requirement? If not, what is the shortfall?

Answer: As a follow-on to the QOL Task Force, we have identified a requirement for \$268M in MILCON to replace fitness centers that are more than 30 years old. We have also identified \$49M in O&M for equipment and \$8.6M in MILPERS to upgrade the fitness program and extend hours of operations.

INSERT FOR THE RECORD			
HOUSE SENATE	APPROPRIATIONS COMMITTEE	HOUSE SENATE	ARMED SERVICES COMMITTEE
		X HOUSE SENATE	OTHER National Security Committee
HEARING DATE 27 Mar 96	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. HN-21-005

HIGH-QUALITY FITNESS CENTERS

UNCLASSIFIED

Question: DoD's Quality of Life Task Force identified the importance of high quality fitness centers on military installations and aboard ships to morale, personnel recruitment and retention, and overall readiness. It noted the special importance of these fitness centers to the quality of life of single, junior enlisted service members. However, the Panel found that there are too few quality fitness centers on DoD installations and aboard ships. Staffing problems were also identified with centers being operated with borrowed military manpower. Please comment on what is being done to address these issues. (Does the FY 1997 budget request adequately fund this requirement? If not, what is the shortfall?)

Answer: The FY97 budget funds an addition/alteration project for the fitness center at Incirlik, TU for \$1.7M against an Air Force-wide requirement of \$268M. The budget does not include any additional funding for an identified shortfall of \$49M in equipment or \$8.6M in military personnel to upgrade the program and provide for increased hours of operation.

REAR ADMIRAL LARRY R. MARSH
ASSISTANT CHIEF OF NAVAL
PERSONNEL,
READINESS AND COMMUNITY SUPPORT
BUREAU OF NAVAL PERSONNEL
U.S. NAVY

RESPONSES TO
MEMBERS' QUESTIONS FOR THE

MARCH 27, 1996
HEARING RECORD

ON

MORALE, WELFARE AND RECREATION
ISSUES

HOUSE NATIONAL SECURITY COMMITTEE
SPECIAL OVERSIGHT PANEL HEARING ON MORALE, WELFARE AND
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27 MARCH 1995
QUESTIONS FOR THE RECORD
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DIVIDENDS

Representative McHugh: We have learned that dividends from the exchange services have been reduced due to force structure reductions and reduced sales. Would each of you describe the extent of these decreases on your programs and what has been the impact? How do you intend to make up for these shortfalls?

Admiral Marsh: Over the period of FY91-FY94, there has been a 18% decline in military personnel and a 21% decline in dividends to MWR. The level of decline has been proportionate to the decrease in force reductions and has allowed the Navy Exchange System to retain capitalization funds for physical plant recapitalization and modernization of our ADP systems. The ADP modernization effort will maximize future MWR dividends by increasing Navy Exchange efficiencies and profitability.

The impact of these decreases has been mitigated by other actions. In FY94, Navy was given a \$65 million APF plus-up which was intended as the means to bring MWR APF funding up closer to authorized levels. The infusion of APF allowed MWR to operate in the black, and released NAF funds for some major capitalization and much needed repair and renovation.

To make up for these shortfalls since 1994, MWR has focused on more business like solutions. MWR operations have focused on improving the profitability of its Category C business activities, such as clubs, bowling alleys, and golf courses. Category C profits improved over each of the last four years. In addition, Navy has worked to eliminate low usage programs causing dependence on NEX profits for daily operations.

Navy has maintained a rigorous "Red Flag" financial tracking system which has served as an early warning system to quickly identify stations that get into financial difficulty. Corrective action plans are required at all of the designated "Red Flag" stations, and are monitored

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monthly by the Navy chain of command and the MWR program manager (BUPERS). To assist these commands and BRAC stations, management assistance teams have been formed and have been in the field since last year. They have been active in working with station-level personnel to improve operational efficiencies. To date, actual savings and economics from these teams amount to \$5M.

Both MWR and NEXCOM opted (with approval of our common board of senior flag officer directors) not to have a 1996 NAF major construction call (i.e. more than \$500k per project) in favor of much needed major recapitalization efforts approved in prior years. However, beginning in FY97 Navy MWR will restart a major construction program of approximately \$15M per year. As a result of an improved NAF financial position (funds being available for major construction vice operational subsidies). This level of major capitalization is considered adequate to reduce backlogs over the next 15 years.

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QUESTION 2

HIGH QUALITY FITNESS CENTERS

Representative McHugh: DOD's Quality of Life Task Force identified the importance of high quality fitness centers on military installations and aboard ships to morale, personnel recruitment and retention, and overall readiness. It is noted the special importance of these fitness centers to the quality of life of single, junior enlisted service members. However, the Panel found that there are too few quality fitness centers on DOD installations and aboard ships. Staffing problems were also identified with centers being operated with borrowed military manpower. Please comment on what is being done to address these issues. Does the FY 1997 budget request adequately fund this requirement? If not, what is the shortfall?

Admiral Marsh: There are 24 military construction (MILCON) projects currently programmed for execution through the FY97 to FY01 period. These projects represent a potential expenditure of approximately \$95 million in support of Navy fitness requirements. In FY97 there are three projects for \$12.9 million. The FY-97 request includes two fitness centers for \$6.95M and a \$5.98M QOL facility which includes a fitness room. The current documented backlog of unfunded fitness facilities exceeds \$145 million. The suggested annual target to eliminate the existing backlog and future growth in ten years is approximately \$35 million per year.

Additionally, an O&M,N minor construction program is in place which is dedicated to mission essential facility requirements inclusive of physical fitness, gymnasium and indoor/outdoor courts and field modernization. This program provides supplemental funding of approximately \$19 million per year for 35 to 45 command projects.

In further support of this important effort, the planning criteria for physical fitness facilities has been revised, incorporating the new space requirements associated with mandated physical fitness training. The new criteria expands existing structures and properly sizes new facility

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scope criteria. This planning criteria is near completion and is scheduled for field distribution by late summer 1996.

The FY97 unfunded O&M requirement for fitness is \$12M for ashore operations. In FY97, the Navy has budgeted approximately \$10M in O&M,N funds to upgrade fitness equipment in all U.S. Navy ships. Life cycle costs have been programmed across the FYDP to maintain this equipment and for routine replacement.

Limited military staffing at U.S. Navy fitness facilities does occur. These are authorized billets vice borrowed manpower and represent only 797 positions as opposed to 15,039 positions in civilian NAF and 3,769 positions in civilian APF support. Navy does not have a staffing problem at fitness centers.

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QUESTION 3

CONSTRUCTION VALIDATION

Representative McHugh: The Panel has consistently urged the DOD to employ outside consultants to validate the construction requirements for the armed services MWR programs. Are these validations binding or can the services deviate from the consultant's recommendations?

Admiral Marsh: Independent consultants are being used to perform project validation assessments on MWR nonappropriated fund (NAF) construction nominations. For the FY-97 Nonappropriated Fund Construction Report to OSD and Congress, independent project validations are being completed for all new MWR execution proposals (not those requiring re-reporting). The project validation assessments (PVAs) are based on program needs, market capacity, customer demand, investment analysis (ROI), and operational benefit/impact. While the results of the independent validations are not binding as an absolute measure of need, they will have a very significant influence on project deliberations and the decision to proceed with any initiative.

FOR

THE

HEARING RECORD

RECORD VERSION

WRITTEN STATEMENT BY THE
INTERNATIONAL MILITARY COMMUNITY EXECUTIVES ASSOCIATION
(IMCEA)
FOR THE
MORALE, WELFARE, AND RECREATION PANEL
COMMITTEE ON NATIONAL SECURITY
HOUSE OF REPRESENTATIVES
FIRST SESSION, 104TH CONGRESS
MARCH 27, 1996

NOT FOR PUBLICATION UNTIL RELEASED BY
THE COMMITTEE ON NATIONAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES

**WRITTEN STATEMENT BY
THE INTERNATIONAL MILITARY COMMUNITY
EXECUTIVES ASSOCIATION (IMCEA)
ON MORALE, WELFARE, AND RECREATION (MWR)**

Mr. Chairman and members of the Morale, Welfare, and Recreation (MWR) Panel, IMCEA welcomes the opportunity to present written testimony to the Panel today to discuss MWR.

The International Military Community Executives Association (IMCEA) is a professional association of approximately 500 members whose mission it is to assist individual club and MWR business executives in developing techniques and management skills necessary to assure an outstanding MWR system for military personnel and further the military clubs and MWR business profession. Additionally, IMCEA works to foster and maintain high standards and ethical practices among military MWR executives. We encourage and maintain a spirit of harmony and cooperation among members of the profession. IMCEA provides a legally constituted medium through which its members may direct and coordinate their collective efforts and ideas. By mutual endeavor, IMCEA promotes and inspires public esteem by and through dissemination of information and education programs. IMCEA also speaks for the military MWR executive profession as a whole on an international level and represents its interests. In short, IMCEA is the "voice of the MWR professional".

IMCEA has been serving MWR professionals for 25 years. It is committed to the growth and development of MWR professionals through an Annual Training Conference, Educational Workshops, Publications, Government Affairs, Chapter Involvement, Certification, Annual Recognition Program, Networking System, Reports, Surveys, and Industry Information.

The role of MWR programs in today's Department of Defense is clear. They not only support the mental and physical readiness of the fighting force, but are key elements in the Quality of Life (QOL) umbrella necessary to attract and retain the excellent soldiers, sailors, airmen and marines critical to national defense. The initiatives in the Congress to balance the budget coupled with the initiatives of the respective services to more efficiently and wisely use funding are ensuring the continued strength of the military arm and the quality of life for service members and their families.

IMCEA endorses the increased emphasis the Panel placed on establishing economies and efficiencies in the management of MWR Programs, as directed in the Conference Report on the National Defense Act for Fiscal Year 1996. Each of the services has made progress. Your emphasis and oversight have resulted in a series of unprecedented initiatives and a spirit of

cooperation among the respective services that can only serve to make life better for service members and their families in the near term and in the future. IMCEA commends the Department of Defense and its subordinate service branches for responding so positively and quickly to the issues facing MWR.

DOD OVERSIGHT AND CONTROL OF MWR PROGRAMS: In response to the National Defense Authorization Act for Fiscal Year 1995, DOD reviewed the management and oversight of MWR and developed a plan to maximize MWR support. Included in the plan was the re-establishment of the DOD Executive Resale Board, increased oversight of NAF construction, updating of DOD Directives and Instructions, and analysis of MWR management practices and policies to determine business process improvements. Each of these initiatives has proved to be successful in their own right and promise even greater successes in the future.

JOINT MWR TRAINING INITIATIVES: Training of the MWR workforce is now more economical and efficient due to the establishment of cooperative agreements between the respective services to participate in each others' training courses where possible. The agreement virtually eliminates the need to develop and deliver new courses where others exist. Where duplication already exists, the services have agreed to address consolidation. IMCEA is encouraged by the Initiative for joint recruitment of NAF management trainees and the development of common employment standards that are slated for implementation in Fiscal Year 1997. IMCEA has watched development of these initiatives closely and feels that both MWR professionals and their customers (the service members and their families) will benefit greatly. Planned joint workshops, training sessions, and conferences will also enhance the MWR effort.

NAF MAJOR CONSTRUCTION: IMCEA shares the concerns expressed by the Panel in its November 27, 1995, memorandum to Department of Defense in which the Panel approved the Fiscal Year 1996 Nonappropriated Fund Major Construction Program. The memorandum rightfully expressed concern and issued guidance on major issues facing today's MWR world.

While the Navy was singled out for its inability to recapitalize its facilities, IMCEA fears that the same problem may be looming on the horizon for the other services. NAF Major Construction is at a relative low across the full spectrum as each of the services attempts to grapple with decreasing revenues. The services also rely heavily on dividends from the exchanges for NAF Major Construction funding. Dividends from the exchanges are rapidly declining, resulting in the inability of all services to meet the demands for new construction. Aging facilities translate directly to reduced patronage; eligible patrons may begin to make conscious decisions to patronize alternative facilities to satisfy their recreation and relaxation needs. These facilities are likely to be found in the surrounding civilian community.

Department of Defense has a responsibility to its service members to provide quality MWR programs and services. This requirement extends to the facilities in which the programs and services are offered. MWR is an important element in the total compensation package for service members, just as the commissaries and exchanges are. As such, the facilities in which our service members and their families recreate should be safe, modern, comfortable and representative of the Department's commitment to taking care of its people. Without major capital investment in MWR facilities, the long-range projection for effective, well-run and customer-oriented activities is bleak.

Several years ago, as a result of a comparability study, the Panel was provided information which showed that total monies spent for MWR operations approached \$3 billion dollars annually. Approximately \$1 billion was provided by the taxpayer in the form of Appropriated Funds. These monies were spent to support MWR programs directly impacting on readiness of the force. The remaining \$2 billion were soldier, sailor, airman and marine dollars garnered through profits made largely in Category C MWR Programs. Simply translated, service members were paying approximately two-thirds of the cost of operating MWR Programs. The study drew a parallel between the contributions of the taxpayer and local citizens for recreation programs in the civilian sector with the contributions of the taxpayer and service member for similar programs and found that service members contributed far more to their recreation programs than did citizens in the civilian sector. The dollar values expressed in the study have changed over the years, but the ratio of service member-to-taxpayer dollar has not. This is a situation which can only exacerbate the problems in the construction of new facilities that exists today.

The need for NAF Major Construction will grow as facilities age and deteriorate. The need can only be met by ensuring that the respective services plan and execute a consistent construction program that recognizes the needs and demands of service members and their families, that allocates scarce resources appropriately and that continues to receive the financial support it has received from exchange dividends in the past.

MWR FACILITIES UNDER BASE REALIGNMENT AND CLOSURE:

Over the past several years, service member dollars have been used to construct hundreds of millions of dollars worth of MWR facilities. Upon completion and acceptance of the new facilities, they become part of the Federal inventory. In effect, these MWR facilities then become a "gift" to the Federal Government. Of major concern to IMCEA is that, as a result of Base Realignment and Closure, numerous MWR facilities have been sold or donated to the local community with no compensation to MWR. Thus, service members are not receiving an equitable return on their investment when an installation or base is closed. IMCEA requests that the Panel review current policy for disposition of MWR facilities in an effort to return service member dollars to their rightful owners.

PRIVATIZATION: The November 27, 1995, memorandum also expressed that public/private ventures and cooperation with local communities holds great potential for maximizing the potential of MWR programs and reducing the requirement for capital outlays. IMCEA concurs with the Panel and applauds the efforts of the services to initiate action to pursue privatization as a viable alternative to provide quality facilities and services for MWR patrons.

On going efforts have been analyzed by IMCEA and are believed to be in the best interest of MWR and its patrons. Particularly impressive is the manner in which the services are protecting the spirit under which MWR was originally established---the spirit of service to its patrons. Privatization efforts thus far have been geared toward providing facilities and services at low cost and high caliber customer service, retaining and reinforcing the spirit of service to eligible patrons. Care must be taken to avoid wholesale privatization of MWR facilities and services, thereby possibly losing sight of the true purpose of MWR in deference to taking on profit as the prime motive for MWR. Care must also be taken to ensure that the jobs of MWR professionals are protected and not placed in jeopardy as contractors and developers bring in their own people

EXCHANGE DIVIDENDS: MWR relies heavily on revenues received from the exchanges. These revenues have been declining of late and are not forecast to improve in the near term. While the exchanges have faithfully provided dividends to MWR, neither the importance of the dividends nor the negative impact of reduced dividends can be overemphasized. The exchanges, much like MWR, are faced with large capital investment requirements over the next several years. IMCEA realizes that these investments will produce significant returns on investment, but encourages Department of Defense to seek even further economies within the exchanges to ensure continuing dividends to MWR in order that MWR programs remain strong.

NAF PERSONNEL BENEFITS: In a customer-oriented environment such as the provision of MWR programs and services, the secret to success lies in the training and care of the workforce. Several outstanding training initiatives have been introduced, as discussed earlier. Each of these initiatives is viewed by IMCEA as a major step in the right direction. Work remains to be done, however, in the area of providing uniform NAF personnel health benefits packages for the NAF workforce. Some progress has been made by the individual services to improve health benefits and reduce employee costs. IMCEA appreciates the initiatives taken in this area. Department of Defense is in the process of conducting a study to develop recommendations and a suggested course of action to respond to concerns expressed by the Panel. IMCEA is very interested in the final recommendations, which we understand will be made in September of this year. Medical costs are continually rising, and it is understood that in these times of declining revenues decisions to

improve benefits packages are difficult at best. The MWR workforce, however, remains MWR's greatest asset and must be provided a benefits package which encourages recruitment and retention of the best possible workers and managers.

PORTABILITY LEGISLATION: IMCEA strongly supports the Panel's initiatives on portability. Congress is right in establishing this legislation, which allows NAF employees the opportunity to compete for employment opportunities in the Appropriated Fund personnel system. We feel, however, that the policy is not working in the spirit in which it was intended. We are aware that there have been a number of instances where highly qualified NAF employees attempting to seek employment in APF positions are not even considered for these positions because they do not have tenure in the APF personnel system. IMCEA requests that the Panel review current policies and procedures to ensure that portability legislation is working in the spirit in which it was established.

STANDARDS FOR MWR PROGRAMS: Department of Defense is moving to standardize MWR and Quality of Life Programs in the military so that service members will have uniform programs and services, irrespective of their assignment location. Analysis of program productivity and viability will be greatly enhanced as this initiative will include goals, standards and specific performance measurement criteria for each MWR Program. IMCEA supports this effort.

CONCLUSION

Mr. Chairman and members of the MWR Panel, MWR remains a critical element in the Quality of Life triad of the entitlements package provided by the commissaries, exchanges and MWR for service members and their families. MWR provides great opportunities for improved morale and recreation. In these times of increased demands on the national defense team, the need for high quality MWR programs can not be overstated. MWR professionals worldwide are taking the challenge of preserving the entitlement seriously through a combination of self-initiated and directed cost reductions and streamlined programs and services. They are truly serving well as the stewards of the taxpayer and service member dollars. Despite declining revenues, MWR professionals are getting the job done---and getting it done right.

IMCEA thanks you for your continued support of MWR programs and the professionals who provide them and thanks you for the opportunity to share this testimony with you.



STATEMENT

BY

CHIEF MASTER SERGEANT JAMES E. LOKOVIC, USAF (RET.)

DIRECTOR, MILITARY AND GOVERNMENT RELATIONS

AIR FORCE SERGEANTS ASSOCIATION

**BEFORE THE HOUSE COMMITTEE ON NATIONAL SECURITY
MORALE, WELFARE AND RECREATION PANEL**

ON

COMMISSARIES AND THE MWR SYSTEM

MARCH 27, 1996

AIR FORCE SERGEANTS ASSOCIATION

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Mr. Chairman and distinguished panel members, thank you for this opportunity to explain the importance of the commissary, Base Exchange, and Morale, Welfare and Recreation Systems (MWR) to the enlisted component that AFSA represents. I will also comment on recently announced initiatives and studies that could affect your deliberations.

The commissary system is one of the most important parts of the total military compensation package, *earned* through years of sacrifice during a military career. While on active duty, the commissary's cheaper goods allow lower-paid enlisted members to stretch their budgets to adequately feed their families. Enlisted retirees find the commissary vital to maintaining a dignified lifestyle after military service. Most retirees leave the military during their middle age, and many find it difficult to obtain a well-paying job at that time due to lower education levels and military skills that are not transferrable to civilian employment. The commissary helps to compensate for their income losses.

The current commissary system is the result of a long-standing promise to military members. To lessen the benefit would be the breaking of that promise.

In spite of the obvious and *proven* value of the current commissary system, there are still suggestions to change the system so that the benefit would be diminished. Those who recommend privatization do not recognize that private, for-profit grocers would not operate commissaries in remote areas. This would harm military members assigned to those areas. Most commissaries do not make money. Those that do help pay for the others, in addition to the commissary subsidy. Further, the cost of goods would certainly rise, as profit determinations would take precedence over concern for the overall well-being of military personnel and their families. *Private interests would not continue the current system and military members (especially enlisted) would be harmed.*

AFSA was pleased at the inclusion in the 1996 Defense Authorization Bill of the provision that allows no more than 10 combined commissaries and Base Exchanges (BX), and only in base closure areas or where it is economically feasible. As we said last year, BXMarts are useful for preserving the benefit -- if there is no other way. However, widespread use of BXMarts would result in the loss of important funds to MWR programs that the profits from BXs provide -- over \$278 million in Fiscal Year 1994. These limits are helpful to assure that budget-cutting policymakers cannot simply change the system.

There are recent proposals that are of concern to AFSA. The recently announced "Performance-Based Organization" (PBO) initiative promises to streamline the operations of the Defense Commissary Agency (DeCA). However, AFSA is not ready to support the proposal until *all* details are available. Because of the quick nature of how the proposal was put together, a scarcity of information is available for comment.

However, one item that AFSA is concerned about is the suggestion to place a civilian as the head of DeCA. AFSA opposes this and thinks that DeCA should remain under the

(more)

control of a general officer. This would help ensure that, among other things, DeCA remains under the purview of DOD. This is necessary because eliminating a military link would be a possible step toward a privatization initiative. The suggested CEO "performance standards" could apply to a general officer. Monetary incentives and bonuses are not necessary in order to guarantee the efficient operation of a system. Releasing DeCA from many of the labor and procurement regulations that it must now deal with might be sufficient to improve its performance.

AFSA also feels that the three-year budgeting proposal would be a good way to secure the system's integrity. Budgeting for a longer term, rather than annually, would make it more difficult for "quick-hit" proposals that would radically change the system during or before the next fiscal year. Additionally, they would provide DeCA's leadership with a greater ability to control their budgeting, providing an opportunity for better management.

AFSA strongly urges that, once both the details and specific legislative language are provided, this panel carefully study and deliberate prior to recommendation. *AFSA is not opposed to changes in how the system is administered as long as there is no loss in the value of the benefit.*

AFSA is also concerned with the recently announced Congressional Budget Office study of the MWR, retail and commissary systems. We understand that its primary focus will be on looking at those systems within the context of privatization. I laid out AFSA's concerns regarding commissaries and said that, as far as BXs are concerned, they return important dollars to the MWR system. Privatizing this system would mean that in order to continue with the current level of MWR support, an annual appropriation would be needed. Unfortunately, program support can vary among different Congresses. The current BX system works very well and should continue.

Strong and continued support of MWR programs is vital to the ability of military members to perform their tasks and to their families to cope with the stresses that accompany the military lifestyle. For example, fitness centers still have a staffing shortfall that prevents them from operating an adequate amount of time weekly. They cannot be open for many whose hours do not fit the open hours of the facilities. This harms the morale, fitness and readiness of affected military members.

Additionally, in order to meet current OPTEMPO needs, dollars are needed to upgrade other important facilities, such as libraries and dining halls. AFSA believes that greater support for these facilities would be in line with the large emphasis on healthier lifestyles.

For-profit corporations would, by definition, not have the best interests of military members as their focus. For that reason, all efforts that focus on privatization should be resisted. Mr. Chairman, AFSA is not opposed to all changes that are suggested, but it is opposed to those that would have the effect of lessening the quality of the lives of current beneficiaries. As always, Mr. Chairman, AFSA is ready to assist you in matters of mutual concern.

NMVA

STATEMENT

BY

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LEGISLATIVE ASSISTANT, AIR FORCE SERGEANTS ASSOCIATION

ON BEHALF OF

THE NATIONAL MILITARY/VETERAN ALLIANCE

BEFORE THE HOUSE COMMITTEE ON NATIONAL SECURITY
MORALE, WELFARE AND RECREATION PANEL

ON

COMMISSARIES AND THE MWR SYSTEM

MARCH 27, 1996

AIR FORCE SERGEANTS ASSOCIATION

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Mr. Chairman and distinguished panel members, thank you for this opportunity to explain the importance of the commissary, exchange, and Morale, Welfare and Recreation Systems (MWR) to the active and former military members the National Military/Veteran Alliance (NMVA) represents. I will also comment on recently announced initiatives and studies that could affect your deliberations. The NMVA consists of 2.7 million past and present military members. The Korean War Veterans Association, the National Association for Uniformed Services, the Naval Reserve Association, the Non Commissioned Officers Association, and the Veterans of Foreign Wars join AFSA in this statement of record.

The commissary system is one of the most important parts of the total military compensation package, *earned* through years of sacrifice during a military career. While on active duty, the commissary's cheaper goods allow military members to stretch their budgets to adequately feed their families. Retirees find the commissary vital to maintaining a dignified lifestyle after military service. Many former members find it difficult to obtain a well-paying job at the end of service due to military skills not transferrable to the civilian sector. The commissary helps to compensate them. Additionally, the NMVA calls for elimination of the costly commissary privilege card system and supports full year-round access for Guardsmen and Reservists.

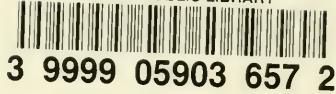
The current commissary system is the result of a long-standing promise to military members. To lessen that benefit would be to break that promise.

In spite of the obvious and *proven* value of the current commissary system, there are still suggestions to change the system so that the benefit would be diminished. Those who recommend privatization do not recognize that private, for-profit grocers would not operate commissaries in remote areas. This would harm military members assigned to those areas. Most commissaries do not make money. Those that do help pay for the others, in addition to the commissary subsidy. Further, the cost of goods would certainly rise, as profit determinations would take precedence over concern for the overall well-being of military personnel and their families. *Private interests would not continue the current system and military members would be harmed.*

The NMVA was pleased at the inclusion in the 1996 Defense Authorization Bill of the provision that allows combined commissaries and exchanges only in base closure areas and where it is economically feasible. These combined stores are useful for preserving the benefit -- if there is no other way. However, widespread use of this combination would result in the loss of important funds to MWR programs that the profits from exchanges provide -- over \$278 million in Fiscal Year 1994. These limits are helpful to assure that budget-cutting policymakers cannot simply change the system.

There are recent proposals that are of concern to the NMVA. The recently announced "Performance-Based Organization" (PBO) initiative promises to streamline the operations of the Defense Commissary Agency (DeCA). However, the NMVA is not ready to support the proposal until *all* details are available. Because of the quick nature of how the proposal was put together, a scarcity of information is available for comment.

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However, one item that the NMVA is concerned about is the suggestion to place a civilian as the head of DeCA. The NMVA opposes this and thinks that DeCA should remain under the control of a general officer. This would help ensure that, among other things, DeCA remains under the purview of DOD. This is necessary because eliminating a military link would be a possible step toward a privatization initiative. The suggested CEO "performance standards" could apply to a general officer. Monetary incentives and bonuses are not necessary in order to guarantee the efficient operation of a system. Releasing DeCA from many of the labor and procurement regulations that it must now deal with might be sufficient to improve its performance.

The NMVA also feels that the three-year budgeting proposal would be a good way to secure the system's integrity. Budgeting for a longer term, rather than annually, would make it more difficult for "quick-hit" proposals that would radically change the system during or before the next fiscal year. Additionally, they would provide DeCA's leadership with a greater ability to control its budget, giving an opportunity for better management.

The NMVA strongly urges that, once both the details and specific legislative language are provided, this panel carefully study and deliberate prior to recommendation. *The NMVA is not opposed to changes in how the system is administered as long as there is no loss in the value of the benefit.*

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Strong and continued support of MWR programs is vital to the ability of military members to perform their tasks and to their families to cope with the stresses that accompany the military lifestyle. For example, fitness centers still have a staffing shortfall that prevents them from operating an adequate amount of time weekly. They cannot be open for many whose hours do not fit the open hours of the facilities. This harms the morale, fitness and readiness of affected military members.

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